

CONFORMED COPY

Program No. 492-0431

Non-Project Grant Agreement No. 492-K-606

GRANT AGREEMENT  
BETWEEN THE  
UNITED STATES OF AMERICA  
AND THE  
REPUBLIC OF THE PHILIPPINES  
FOR THE  
AGRARIAN REFORM SUPPORT PROGRAM

Dated: August 28, 1989

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ANNEX 1: Eligible Budget Line Items

## GRANT AGREEMENT

By this Agreement made and entered into on the 28th day of August, 1989, the REPUBLIC OF THE PHILIPPINES (the "Grantee") and the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D."), hereby agree as follows:

### Section 1: The Grant.

Pursuant to the Foreign Assistance Act of 1961, as amended, A.I.D. hereby grants to the Grantee, on the terms and conditions stated herein, Fifty Million United States ("U.S.") Dollars (\$50,000,000.00) (the "Grant") for the Agrarian Reform Support Program ("ARSP"), as defined in Section 2.

### Section 2: Agrarian Reform Support Program.

The objective of ARSP is to assist the Grantee in meeting early term goals of its Comprehensive Agrarian Reform Program. The amounts and timing of U.S. dollar disbursements by A.I.D. to the ARSP Dollar Special Account will be determined in accordance with the provisions of Section 3.6 on the basis of the progress of the Grantee in attaining agreed upon physical performance benchmarks and on the basis of the Grantee's disbursements for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories, as defined

below. The Grantee shall deposit in the ARSP Peso Special Account in accordance with the provisions of Section 5 an amount of Philippine pesos equivalent to each U.S. dollar disbursement by A.I.D. to the ARSP Dollar Special Account. The Philippine peso amounts held in the ARSP Peso Special Account shall be transferred to the Grantee's Agrarian Reform Fund Account in accordance with the provisions of Section 6.1 to assist the Grantee's financing of disbursements for maintenance and operating expenses and capital outlay costs incurred on or after January 1, 1989 and on or before June 30, 1990, or such later date as the Parties may agree upon in writing, in the Grantee's Agrarian Reform Fund Budget Categories specified in Annex 1 hereto (the "Eligible ARSP Budget Categories").

Section 3: Dollar Disbursements by A.I.D.

Section 3.1. Dollar Disbursements for Monitoring and Evaluation. A.I.D. may disburse up to Two Million Five Hundred Thousand U.S. Dollars (U.S. \$2,500,000) of the Grant to acquire goods and services to carry out the scope of work for monitoring and evaluation services for ARSP mutually agreed upon pursuant to Section 3.2(e). Such goods and services shall be acquired by A.I.D. pursuant to A.I.D. Project Implementation Orders for Technical Services and A.I.D. Project Implementation Orders for Commodities issued by A.I.D. Costs incurred under contracts whereby A.I.D. acquires such goods and services shall be charged against the amount provided therefor under this Section 3.1. In the event that any such costs are payable in Philippine pesos, A.I.D. may purchase Philippine pesos with U.S. dollars made available under the

Grant. At the request of A.I.D., the Grantee shall make such arrangements as may be necessary so that U.S. dollars made available under the Grant for the purposes of this Section 3.1 may be converted into Philippine pesos at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines. The amount, if any, less than the amount made available pursuant to this Section 3.1 determined at any time by A.I.D. not to be required for the acquisition of and payment for such goods and services shall thereafter be made available for disbursement in accordance with the provisions of Section 3.6.

Section 3.2. Conditions Precedent to First Dollar

Disbursement to the ARSP Dollar Special Account. Except as A.I.D. may otherwise agree in writing, prior to the first disbursement of dollars by A.I.D. pursuant to Section 3.6 or to the issuance of documentation pursuant to which such disbursement shall be made, the Grantee shall have furnished to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion of the person holding or acting in the office of the Secretary of the Grantee's Department of Justice that this Agreement has been duly authorized or ratified by and executed on behalf of the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

(b) A statement of the names of the persons holding or acting in each office of the Grantee specified in Section 8.9, together with a specimen signature of each person specified in such statement; and

(c) An implementation plan specifying (i) the responsibilities and interrelationships of the entities involved in the receipt and disbursement of funds held in the ARSP Dollar Special Account and in the ARSP Peso Special Account and (ii) the type of documentation to be obtained and maintained by or on behalf of the Grantee evidencing the use of dollars disbursed from the ARSP Dollar Special Account; and

(d) A true, correct and complete copy of Commission on Audit Memorandum 89-605-A dated June 22, 1989 setting forth guidelines for the preparation and submission of audited reports of disbursements in selected eligible budget categories under agreements with the United States of America; and

(e) The written agreement of the Grantee regarding the scope of work for monitoring and evaluation services for ARSP to be acquired pursuant to Section 3.1.

Section 3.3. Conditions Precedent to Each Dollar Disbursement to the ARSP Dollar Special Account. Except as A.I.D. may otherwise agree in writing, prior to each disbursement of dollars by A.I.D. pursuant to Section 3.6, or to the issuance of documentation pursuant to which such disbursement will be made:

(a) The Grantee shall be in substantial compliance with all of the terms and conditions of this Agreement as of the date of such disbursement or issuance of documentation including, without limitation, compliance with the reporting requirements set forth in Section 7.1; and

(b) The Grantee shall have furnished to A.I.D., in form and substance satisfactory to A.I.D., a statement of the name, branch and U.S. Federal Reserve Bank branch number of each bank with which the U.S. dollars to be disbursed pursuant to a request therefor in accordance with Section 3.6 shall be deposited, together with a statement of the amount of U.S. dollars to be deposited therein; and

(c) The Grantee shall have furnished to A.I.D., in form and substance satisfactory to A.I.D., a schedule of payments, which shall identify payees, amounts and due dates, proposed to be made by the Central Bank of the Philippines using U.S. dollars held in the ARSP Dollar Special Account, including U.S. dollars to be deposited therein pursuant to a request for disbursement under Section 3.6 and interest, if any, in respect of funds held in said Account; and

(d) The Grantee shall have furnished to A.I.D., in form and substance satisfactory to A.I.D., evidence that the payments specified pursuant to paragraph (c) of this Section 3.3 in connection with any prior disbursement of U.S. dollars pursuant to Section 3.6 have been made from the ARSP Dollar Special Account in accordance with Section 4.1.

Section 3.4. Notification. A.I.D. shall promptly notify the Grantee in writing when A.I.D. has determined that the conditions precedent to disbursement specified in Section 3.2 have been satisfied and when A.I.D. has determined, in connection with each request by the Grantee for a disbursement pursuant to Section 3.6, that the conditions precedent to disbursement specified in Section 3.3 have been satisfied and that the amount to be disbursed pursuant to Section 3.6 has been calculated with respect to such requested disbursement.

Section 3.5. Terminal Date for Certain Conditions

Precedent. If all of the conditions precedent to disbursement specified in Section 3.2 and all of the conditions precedent to disbursement in connection with the first disbursement pursuant to Section 3.6 specified in Section 3.3 have not been met on or before October 31, 1989, or such later date as A.I.D. may agree to in writing, A.I.D., after first consulting with the Grantee may, at its option, terminate this Agreement by written notice to the Grantee.

Section 3.6. Dollar Disbursements to the ARSP Dollar

Special Account.

(a) Amounts of Disbursements. The Grantee may request disbursements pursuant to this Section 3.6 at any time prior to December 31, 1990, or such later date as A.I.D. may agree to in writing, but not more often than once in any fiscal quarter. Upon completion of the procedures described below for the calculation of the amount to be disbursed, and upon satisfaction of the conditions precedent to disbursement specified in Section 3.2 with respect to the first such request and specified in Section 3.3 with respect to each such request, and to the extent that funds are available therefor under the terms of this Agreement, A.I.D. shall disburse on behalf of the Grantee for deposit in a separate account or accounts with the bank or banks specified in the statement provided in satisfaction of Section 3.3(b) in connection with such request, an amount of U.S. dollars equal to the lesser of (a) the Physical Performance Amount and (b) the Eligible ARSP Disbursement Amount, as defined herein. For purposes of determining the foregoing amount in connection with each request by the Grantee for

disbursement pursuant to this Section 3.6 (other than in connection with the first such request), A.I.D. shall, as soon as practicable upon receipt of any such request by the Grantee, cause a contractor or contractors hired pursuant to Section 3.1 (hereinafter in this Section 3.6, the "Monitoring Contractor") to calculate the Physical Performance Amount through the end of the last fiscal quarter covered by the most recent report provided pursuant to Section 7.1(b) and to calculate the Eligible ARSP Disbursement Amount through the end of the second fiscal quarter following the last fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a), but not beyond the fiscal quarter ending June 30, 1990.

(b) Physical Performance Amount. With respect to the determination of the Physical Performance Amount in connection with each disbursement made pursuant to this Section 3.6:

(i) The term "Physical Performance Amount" shall mean (x) Average Cumulative Percentage of Physical Performance multiplied by (y) U.S. \$47,500,000 plus the amounts, if any, made available for disbursement under this Section 3.6 pursuant to the last sentence of Section 3.1, with the product of (x) and (y) rounded to the nearest \$100,000, minus the total U.S. dollar amount previously disbursed pursuant to this Section 3.6.

(ii) The term "Average Cumulative Percentage of Physical Performance" shall mean the sum of the Cumulative Percentages of Physical Performance for each indicator of physical performance specified in clause (iv) below, divided by the number of such indicators.

(iii) The term "Cumulative Percentage of Physical Performance" for each indicator of physical performance specified in clause (iv) below shall mean, with respect to the first disbursement pursuant to this Section 3.6, Initial Reported Physical Performance for such indicator divided by the Performance Benchmark specified in clause (iv) below for such indicator, and shall mean, with respect to each subsequent disbursement pursuant to this Section 3.6, Cumulative Monitored Physical Performance for such indicator divided by the Performance Benchmark specified in clause (iv) below for such indicator, with the quotients in each case expressed in percentages rounded to the nearest one-tenth of one percent.

(iv) The term "Performance Benchmark," with respect to an indicator of physical performance, shall mean the amount set forth below beside the corresponding indicator:

<u>Physical Performance Indicator</u>	<u>Performance Benchmark</u>
1. Area surveyed (in hectares)	182,695
2. Emancipation patents generated (by hectares)	176,987
3. Emancipation patents generated (by number of patents)	190,633
4. Emancipation patents distributed (by hectares)	131,223
5. Emancipation patents distributed (by number of patents)	138,130

(v) The term "Initial Reported Physical Performance," with respect to an indicator of physical performance specified in clause (iv) above, shall mean the amount of progress, measured in the units specified in clause (iv) above, reported by the Grantee in accordance with Section 7.1(b) to have been accomplished for such indicator in the two fiscal quarters ended June 30, 1989.

(vi) The term "Cumulative Monitored Physical Performance," with respect to an indicator of physical performance specified in clause (iv) above, shall mean the cumulative amount of progress, measured in the units specified in clause (iv), estimated in the Monitoring Contractor's professional judgment to have been accomplished for such indicator in the period from January 1, 1989 through the end of the last fiscal quarter covered by the most recent report provided pursuant to Section 7.1(b), but not beyond the fiscal quarter ending June 30, 1990.

(c) Eligible ARSP Disbursement Amount.

With respect to the determination of the Eligible ARSP Disbursement Amount in connection with any disbursement made pursuant to this Section 3.6:

(i) The term "Eligible ARSP Disbursement Amount" shall mean (a) with respect to the first disbursement pursuant to this Section 3.6, the U.S. dollar equivalent, rounded to the nearest \$100,000, of eighty percent of the sum of (x) Anticipated Eligible ARSP Disbursements for the two fiscal quarters ending December 31, 1989 and (y) Cumulative Reported Eligible ARSP Disbursements for the two fiscal quarters ended June 30, 1989, and shall

mean (b) with respect to each subsequent disbursement pursuant to this Section 3.6, the U.S. dollar equivalent, rounded to the nearest \$100,000, of eighty percent of:

	Anticipated Eligible ARSP Disbursements
plus	Cumulative Reported Eligible ARSP Disbursements
minus	Cumulative ARSP Peso Special Account Transfers
minus	Cumulative ARSP Disbursement Adjustment
minus	ARSP Peso Special Account Balance

provided, however, that the amount determined pursuant to subclause (a) and (b) shall not result in less than Two Million Five Hundred Thousand U.S. Dollars (U.S. \$2,500,000) remaining available under the Grant for disbursement pursuant to this Section 3.6 until the Cumulative ARSP Disbursement Adjustment has been calculated in accordance with subclause (b) of clause (v) below. In determining the U.S. dollar equivalent of the resulting Philippine peso amounts under the foregoing procedure, said Philippine peso amounts shall be converted into U.S. dollar amounts at the prevailing rate of exchange of the Central Bank of the Philippines for the purchase of U.S. dollars on the date of A.I.D.'s written notice to the Grantee pursuant to Section 3.4 stating that all of the conditions precedent to disbursement specified in Section 3.3 have been satisfied and that the amount to be disbursed pursuant to this Section 3.6 has been calculated in connection with the Grantee's request for disbursement.

(ii) The term "Anticipated Eligible ARSP Disbursements" shall mean the amount of pesos that the Grantee and A.I.D. agree from time to time is reasonably anticipated to be disbursed for costs incurred and to be incurred in the two fiscal quarters following

the last fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a) for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories, but not beyond the fiscal quarter ending June 30, 1990.

(iii) The term "Cumulative Reported Eligible ARSP Disbursements" shall mean the cumulative amount of pesos reported from time to time pursuant to clause (i) of Section 7.1(a) as actually disbursed for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories through the end of the last fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a), but not beyond the fiscal quarter ending June 30, 1990.

(iv) The term "Cumulative ARSP Peso Special Account Transfers" shall mean the cumulative amount of pesos previously transferred from time to time from the ARSP Peso Special Account to the Grantee's Agrarian Reform Fund Account.

(v) The term "Cumulative ARSP Disbursement Adjustment" shall mean (a) in the case of disbursements pursuant to this Section 3.6 other than the last such disbursement, the difference from time to time between Penultimate Cumulative Reported Eligible ARSP Disbursements and Cumulative Monitored Eligible ARSP Disbursements and (b) in the case of the last disbursement pursuant to this Section 3.6, the difference between Cumulative Reported Eligible ARSP Disbursements and Cumulative Monitored Eligible ARSP Disbursements.

(vi) The term "Penultimate Cumulative Reported Eligible ARSP Disbursements" shall mean the cumulative amount of pesos reported from time to time pursuant to clause (i) of Section 7.1(a) as having been disbursed for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories through the end of the penultimate fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a).

(vii) The term "Cumulative Monitored Eligible ARSP Disbursements" shall mean (a) in the case of disbursements pursuant to this Section 3.6 other than the last such disbursement, the amount estimated from time to time in the Monitoring Contractor's professional judgment to have actually been disbursed for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories through the end of the penultimate fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a) and (b) in the case of the last disbursement pursuant to this Section 3.6, the amount estimated in the Monitoring Contractor's professional judgment to have actually been disbursed for maintenance and operating expenses and capital outlay costs in the Eligible ARSP Budget Categories through the end of the last fiscal quarter covered by the most recent report provided pursuant to clause (i) of Section 7.1(a), but not beyond the fiscal quarter ending June 30, 1990.

(viii) The term "ARSP Peso Special Account Balance" shall mean the balance of funds, if any, held in the ARSP Peso Special Account at the time any disbursement is made pursuant to this Section 3.6.

Section 3.7. ARSP Dollar Special Account. The separate bank account or accounts into which U.S. dollars disbursed pursuant to Section 3.6 are deposited shall be referred to collectively as the "ARSP Dollar Special Account." Funds so deposited in the ARSP Dollar Special Account shall not be commingled with funds from any other source; Provided, however, that the ARSP Dollar Special Account shall include interest, if any, earned on funds held in said Account. The Grantee shall promptly furnish to A.I.D., in form and substance satisfactory to A.I.D. (i) documentation evidencing deposits into the ARSP Dollar Special Account and (ii) periodic statements of balances held in said Account, including interest, if any, earned on funds held therein.

Section 4: Disbursement of Dollars from the ARSP Dollar Special Account.

Section 4.1. Disbursement of Dollars from the ARSP Dollar Special Account. U.S. dollars held in the ARSP Dollar Special Account shall be disbursed by the Central Bank of the Philippines in accordance with the implementation plan submitted in satisfaction of Section 3.2(c) to pay debt service obligations of the Grantee (other than obligations incurred for public corporations) and of the Central Bank of the Philippines to the International Monetary Fund, the International Bank for Reconstruction and Development, the International Development Association, or the Asian Development Bank, in accordance with the schedules of payments provided pursuant to Section 3.3(c). Funds held in the ARSP Dollar Special Account shall be used solely for the foregoing

purpose, or for such other purposes as the Parties may mutually agree upon, until all funds held in said Account from time to time have been disbursed for such purpose.

Section 4.2. Restriction on Disbursement of Dollars from the ARSP Dollar Special Account. U.S. Dollars held in the ARSP Dollar Special Account may be disbursed, transferred or otherwise disposed of only as provided in Section 4.1, except as A.I.D. may otherwise agree in writing.

Section 5: ARSP Peso Special Account.

Immediately upon disbursement by A.I.D. of U.S. dollars pursuant to Section 3.6, the Grantee shall establish one or more separate bank accounts (collectively, the "ARSP Peso Special Account") and shall deposit therein within one business day of the time any U.S. dollar deposit is made into the ARSP Dollar Special Account by A.I.D. pursuant to Section 3.6, an amount of Philippine pesos equivalent to each such dollar deposit. In determining the total amount of Philippine pesos required to be deposited in the ARSP Peso Special Account in connection with each such U.S. dollar deposit, U.S. dollars shall be converted into Philippine pesos at the prevailing rate of exchange of the Central Bank of the Philippines for the purchase of U.S. dollars on the date of such conversion; provided, however, that if at the time of such conversion there shall be more than one lawful rate of exchange in the Republic of the Philippines, the Grantee shall make such arrangements as may be necessary so that funds provided under the Grant may be converted at the

highest rate of exchange which is not unlawful in the Philippines on the date of each such conversion. Funds so deposited in the ARSP Peso Special Account shall not be commingled with funds from any other source; Provided, however, that the ARSP Peso Special Account shall include interest, if any, earned on funds held in said Account and amounts, if any, refunded to said Account pursuant to Section 8.3(b). The Grantee shall promptly furnish to A.I.D., in form and substance satisfactory to A.I.D. (i) documentation evidencing deposits into the ARSP Peso Special Account required by this Section 5 and the deposits, if any, required by Section 8.3(b), and (ii) periodic statements of balances held in said Account, including interest, if any, earned on funds held therein.

Section 6: Transfer of Pesos from the ARSP Peso Special Account to the Agrarian Reform Fund Account.

Section 6.1. Transfers to Grantee's Agrarian Reform Fund Account. Within one business day following each deposit of pesos into the ARSP Peso Special Account pursuant to Section 5 in connection with each disbursement of dollars pursuant to Section 3.6, the Grantee shall transfer from the ARSP Peso Special Account to the Grantee's Agrarian Reform Fund Account an amount of pesos equal to the Eligible ARSP Disbursement Amount calculated in connection with such disbursement of dollars. Any funds held in the ARSP Peso Special Account as the result of the deposit of any refund made pursuant to Section 8.3(b) on or after December 31, 1990 shall be transferred or otherwise disposed of pursuant to an agreement in writing between the Parties.

Section 6.2. Restriction on Disbursement of Pesos from the ARSP Peso Special Account. Pesos held in the ARSP Peso Special Account may be disbursed, transferred or otherwise disposed of only as provided in Section 6.1, except as A.I.D. may otherwise agree in writing.

Section 7: Special Covenants of the Grantee.

Section 7.1. Reports.

(a) Quarterly Disbursement Reports. The Grantee agrees to furnish A.I.D. quarterly disbursement reports, which may be amended, in form and substance satisfactory to A.I.D., for the period commencing January 1, 1989 (i) reporting by specific budget category the cumulative actual disbursements by the Grantee through the end of the period reported upon for maintenance and operating expenses and capital outlay costs incurred on or after January 1, 1989 in the Eligible ARSP Budget Categories, and (ii) reporting each disbursement of dollars from the ARSP Dollar Special Account pursuant to Section 4.1, with a specification for each disbursement of the payee and the amount and date of payment, together with a certification, in form and substance satisfactory to A.I.D., that the Grantee has obtained and is maintaining documentation for each such disbursement of the type specified in the implementation plan submitted in satisfaction of Section 3.2(c). These quarterly disbursement reports shall be due by the end of the quarter following the most recent quarter reported upon; provided, however, that the reports required by clause (i) hereof on disbursements for the two fiscal quarters ended June 30, 1989 shall be provided on or before October 31, 1989 in connection with the Grantee's first request for disbursement pursuant to Section 3.6.

(b) Quarterly Performance Reports. The Grantee agrees to furnish to A.I.D. quarterly performance reports, which may be amended, in form and substance satisfactory to A.I.D. These quarterly performance reports shall be due by the end of the quarter following the most recent quarter reported upon; provided, however, that the quarterly performance reports for the two fiscal quarters ended June 30, 1989 shall be provided on or before October 31, 1989 in connection with the Grantee's first request for disbursement pursuant to Section 3.6. Quarterly performance reports shall report (i) progress for each of the physical performance indicators specified in Section 3.6(b)(iv) against the Performance Benchmarks therein specified for the quarter reported upon and in the aggregate since January 1, 1989; and (ii) any implementation issues, together with a statement of the actions the Grantee has taken, is taking or proposes to take with respect to such issues.

(c) Audited Reports. The Grantee agrees to furnish A.I.D., in form and substance satisfactory to A.I.D., a semi-annual report for the first two quarters of the Grantee's 1989 and 1990 Budget Years and an annual report for each such year audited by the Commission on Audit and prepared in accordance with the Commission on Audit Memorandum provided in satisfaction of Section 3.2(d), beginning with the period commencing January 1, 1989 (i) reporting on disbursements through the end of the period reported upon for maintenance and operating expenses and capital outlay costs incurred on or after January 1, 1989 in the Eligible ARSP Budget Categories; and (ii) reporting on the use of dollars disbursed from the ARSP Dollar Special Account pursuant to

Section 4.1; and (iii) certifying that all funds disbursed from the ARSP Dollar Special Account and all funds transferred from the ARSP Peso Special Account have been used in accordance with the terms of this Agreement. The semi-annual report for the first semester of each year shall be due by December 31 of such year and the annual report for each year shall be due by September 30 of the following year. In conjunction with the audited annual report due on or before September 30, 1990 and the audited annual report due on or before September 30, 1991, respectively, the Grantee's Presidential Agrarian Reform Council Secretariat shall furnish A.I.D., in form and substance satisfactory to A.I.D., a certification that an amount at least equal to the amount of pesos transferred from the ARSP Peso Special Account to the Grantee's Agrarian Reform Fund Account has not been reported against other external assistance available to the Grantee for disbursements for maintenance and operating expenses and capital outlay costs incurred in the Grantee's 1989 and 1990 Budget Years, respectively, in the Eligible ARSP Budget Categories.

Section 7.2. Program Evaluation. The Parties agree to establish an evaluation program as part of ARSP. Except as the Parties otherwise agree in writing, the evaluation program shall include, during the implementation of ARSP and at one or more points thereafter:

(i) An evaluation of progress toward attainment of the objectives of ARSP; and

(ii) Identification and evaluation of problem areas or constraints which may inhibit such attainment; and

(iii) Assessment of how such information may be used to help overcome such problems; and

(iv) Evaluation, to the degree feasible, of the overall development impact of ARSP.

Section 8: General Covenants of the Grantee.

Section 8.1. Taxation.

(a) This Agreement and the Grant shall be free from any taxation or fees imposed under laws now in effect, or which may hereafter come into effect, in the Philippines.

(b) To the extent that (i) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transactions relating to such Contracts and (ii) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws now in effect, or which may hereafter come into effect, in the Philippines, the Grantee will, as and to the extent provided in and pursuant to Program Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

Section 8.2. Reports, Records, Inspection and Audit.

(a) The Grantee agrees to furnish A.I.D. such information and reports relating to ARSP and to this Agreement as A.I.D. may reasonably request, including, without limitation, such information and reports as A.I.D. may reasonably request evidencing that amounts deposited or held in the ARSP Dollar Special Account and in the

ARSP Peso Special Account have been obtained and used for the purposes and in accordance with the procedures and documentation agreed upon by the Grantee and A.I.D.

(b) The Grantee shall maintain, or cause to be maintained, in accordance with generally accepted accounting Principles and practices consistently applied, books and records relating to ARSP and to this Agreement adequate to evidence compliance with this Agreement. Such books and records shall be audited regularly by the Grantee's Commission on Audit in accordance with generally accepted auditing standards, and shall be maintained for at least three years after delivery to A.I.D. of the last audited report required by Section 7.1(c). The Grantee agrees to provide authorized representatives of A.I.D. the opportunity at any reasonable time to inspect such books and records.

Section 8.3. Refunds.

(a) In the case of any transfer or disbursement of dollars to or from the ARSP Dollar Special Account which is not supported by valid documentation in accordance with this Agreement or which is not used for purposes agreed upon under this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such transfer or disbursement in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(b) In the case of any transfer or disbursement of pesos from the ARSP Peso Special Account which is not supported by valid documentation in accordance with this Agreement or is

not made or used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund to the ARSP Peso Special Account in pesos the amount of such transfer or disbursement. Any such refund shall be paid into the ARSP Peso Special Account within sixty days after receipt of a request therefor and thereafter shall be used for purposes of ARSP in accordance with the terms of this Agreement.

(c) The right to require a refund pursuant to Sections 8.3(a) and 8.3(b) shall continue, notwithstanding any other provision of this Agreement, for three years from the date of delivery to A.I.D. of the last audited report required by Section 7.1(c).

Section 8.4. Consultation. The Grantee and A.I.D. agree to cooperate to ensure that the purposes of this Agreement will be accomplished and, at the request of either, shall exchange views on the progress of ARSP, the performance of obligations under this Agreement and other matters relating to ARSP. Without limitation of the generality of the foregoing, the Grantee agrees to cooperate with the contractor or contractors hired pursuant to Section 3.1 and to facilitate the accomplishment of the scope of work mutually agreed upon pursuant to Section 3.2(e).

Section 8.5. Publicity. The Grantee shall give appropriate publicity to the Grant and to ARSP as a program to which the United States has contributed, as may be more specifically indicated by A.I.D. in Program Implementation Letters.

Section 8.6. Completeness of Information.

(a) The Grantee confirms that the facts and circumstances of which it has informed A.I.D. or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on this Agreement, are accurate and complete to the best of the Grantee's knowledge and belief after due inquiry and include all facts and circumstances to the Grantee's knowledge and belief after due inquiry that might materially affect ARSP or the discharge of responsibilities under this Agreement.

(b) The Parties agree to inform each other in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, ARSP or the discharge of responsibilities under this Agreement.

Section 8.7. Implementation Letters. To facilitate the implementation of ARSP, the Parties may issue mutually agreed-upon Joint Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement and A.I.D. may issue Program Implementation Letters to record approvals, notifications, exceptions or other matters pertaining to this Agreement. Neither Program Implementation Letters nor Joint Program Implementation Letters shall be used to amend the text of this Agreement.

Section 8.8. Communications. Any notice, request or document, or other communication submitted by either Party to the other under this Agreement shall be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address: National Economic and Development Authority  
Amber Avenue, Pasig, Metro Manila

with a copy to: Department of Budget and Management  
Malacanang, Manila

Presidential Agrarian Reform Council  
Secretariat, Department of Agrarian Reform  
Elliptical Road  
1101 Diliman, Quezon City

Department of Finance  
Central Bank Building  
Ermita, Manila

Central Bank of the Philippines  
Central Bank Building  
Ermita, Manila

To A.I.D.:

Mail Address: United States Agency for International  
Development  
c/o The Embassy of the United States  
of America  
Manila, Philippines

Alternate Address for Cables: USAID/AMEMB Manila

All such communications shall be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

Section 8.9. Representatives. For all purposes relating to this Agreement, the Grantee shall be represented by the person holding or acting in the Office of Secretary of the Department of Agrarian Reform or in the Office of the Director-General of the National Economic and Development Authority and A.I.D. shall be represented by the person

holding or acting in the office of the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power to amend this Agreement. The names of the representatives of the Grantee, with specimen signatures, shall be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in the implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 8.10. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with this Agreement will be construed as a waiver of such right or remedy.

Section 8.11. Termination. A.I.D. may terminate this Agreement in whole or in part by giving the Grantee 30 days' written notice. Termination of this Agreement will terminate any obligations of A.I.D. to provide financial or other resources pursuant to this Agreement, except for payments that A.I.D. is committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination or partial termination of this Agreement. Upon such termination or partial termination, A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant and not delivered to the Grantee be transferred to A.I.D. Notwithstanding any such termination or partial termination, the provisions of this Agreement shall continue in full force and effect with respect to any portion of the Grant provided prior to or notwithstanding such termination or partial termination.

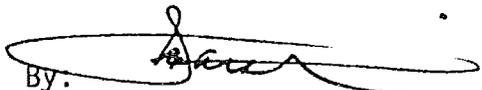
Section 8.12. Certain Restrictions on Use of Resources.

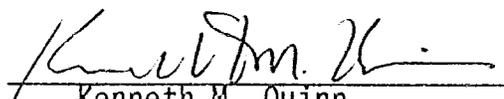
None of the resources provided under or made available as a result of the Grant may be used for (i) military, paramilitary or police purposes, (ii) equity transfers or subsidies to government-owned or controlled corporations, or (iii) consumer subsidy budget expenditures.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representatives, have caused this Agreement to be signed in their names and delivered as of the day and Year first above written.

REPUBLIC OF THE PHILIPPINES

UNITED STATES OF AMERICA

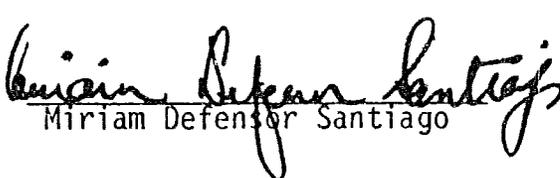
By:   
\_\_\_\_\_  
Victor C. Macalincag

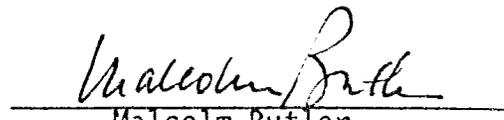
By:   
\_\_\_\_\_  
Kenneth M. Quinn

Title: Acting Secretary  
Department of Finance

Title: Charge d'Affaires  
U.S. Embassy, Manila

WITNESS:

By:   
\_\_\_\_\_  
Miriam Defensor Santiago

By:   
\_\_\_\_\_  
Malcolm Butler

Title: Secretary  
Department of Agrarian Reform

Title: Mission Director  
United States Agency for International Development

ELIGIBLE BUDGET LINE ITEMS  
FUNDED FROM THE AGRARIAN REFORM FUND  
BY AGENCY/ACTIVITY

AGENCY/ACTIVITY

Department of Agrarian Reform  
 General Administration & Support Services  
 Land Acquisition and Development (Services)  
 Agrarian Reform Beneficiaries Development  
 Land Use Management and Land Development  
 Agrarian Reform Info & Education  
 Locally Funded Projects  
 Acquisition of Equipment  
 Regional Operations

Department of Agriculture  
 General Administration & Support Services  
 Regional Operations  
 Extension/Training

Department of Energy and Natural Resources  
 General Administration and Support Services  
 Regional Operations  
 Land Management Services  
 Forest Management Services

Department of Public Works & Highways  
 Rural Roads  
 Small Water Impounding Dam  
 Rural Water Supply

Department of Trade & Industry  
 General Administration & Support Services  
 Regional Operations

Land Bank of the Philippines  
 Operational Support  
 Loans Outlays  
 Credit\*

Land Registration Authority  
 General Administration & Support Services  
 Issuance of Land Titles & Registration of Deeds

National Irrigation Administration  
 Communal Irrigation System

Note: For each budget line item, only maintenance, operating expenses and capital outlays are eligible.

\* Provided market-oriented rates of interest are charged and debt service payments of borrowers are current under credit instruments for which support is sought under ARSP at the time the credit is reported for purposes of ARSP.