

PDKAA 263

A.I.D. Project No. 0251

PROJECT LOAN AND GRANT AGREEMENT

BETWEEN

THE GOVERNMENT OF THE REPUBLIC OF EL SALVADOR

and the

GOVERNMENT OF THE UNITED STATES OF AMERICA

for the

MARGINAL COMMUNITY IMPROVEMENT

DATED: April 24, 1980

BEST AVAILABLE DOCUMENT

RECORD COPY

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Loan and Grant Agreement

Dated: April 24, 1980

Between

The Government of the Republic of El Salvador ("GOES")

And

The Government of the United States of America, acting through the Agency for International Development ("A.I.D").

Article 1: The Agreement.

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the GOES of the Project described herein, and with respect to the financing of the Project by the Parties.

Article 2: The Project

Section 2.1. Definition of Project. The Project, which is further described in Annex 1 which form part of this contract, will assist the GOES to meet immediate needs for Community Infrastructure, Minimum Shelter and Productive Opportunities for the poor and improve the GOES' capacity to address basic needs of the poor in secondary cities in a comprehensive and coordinated manner.

Within the limits of the definition of the Project in Section 2.1 elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement. Annex 1 will identify those elements of the Project for which Grant financing will be employed, and those for which Loan financing will be employed.

Section 2.2. Incremental Financing of the Project.

A.I.D.'s contribution to the Loan and Grant portion of the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

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Article 3: Financing.

SECTION 3.1. The Grant; The Loan. To assist the GOES to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the GOES under the terms of this Agreement not to exceed Eight Hundred and Twenty Five Thousand (\$25,000) United States dollars ("Grant") and to lend the GOES under the terms of this Agreement not to exceed Five Million Dollars (\$5,000,000) ("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal". The Loan and the Grant together are referred to as the "Assistance".

The Assistance may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project.

SECTION 3.2. GOES Resources for The Project.

(a) The GOES agrees to provide or cause to be provided for the Project all funds, in addition to the Assistance, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the GOES for the Project will be not less than the equivalent of Three Million Six Hundred Fifty Thousand United States Dollars (\$3,650,000), including costs borne on an "in-kind" basis, further detailed in Annex I.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is April 20, 1982, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Assistance will have been performed and all goods financed under the Assistance will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Assistance for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D., or any bank described in Section 7.1, no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the GOES may at any time or times reduce the amount of the

Assistance by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Loan Terms.

SECTION 4.1. Interest. The GOES will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement of the Loan hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 3.5) of each respective disbursement, and will be computed on the basis of a 365-day year. Interest will be payable no later than six (6) months after the first disbursement of the Loan hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The GOES will repay to A.I.D. the Principal within Twenty-five (25) years from the date of the first disbursement of the Loan in Thirty-one (31) approximately equal semiannual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1. A.I.D. will provide the GOES with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. Dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D. C. 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the GOES may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The GOES and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects

of El Salvador, which enable the GOES to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 9.2, and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 9.2, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under sub-section (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the office of the GOES' Minister of Planning of El Salvador.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the GOES and A.I.D. relating to the Loan provisions of this Agreement will cease. However, with respect to any obligations arising out of the expenditure of Grant funds, this Agreement will remain in full force and effect.

Article 5: Conditions Precedent to Disbursement.

SECTION 5.1. First Disbursement, Assistance. Prior to the first disbursement of the Assistance, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the GOES will except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of the Attorney General of El Salvador, or other counsel acceptable to A.I.D., that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the GOES and that it constitutes a valid and legally binding obligation of the GOES in accordance with all of its terms;

(b) A statement of the name of the persons holding or acting in the office of the GOES specified in Section 9.3, and specimen signature of each person specified in such statement;

SECTION 5.2. Additional Disbursement. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance other than technical assistance, the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that a full-time Project Coordination Unit has been established and staffed.

SECTION 5.3. Disbursement for Community Basic Services Activities. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance community basic services activities, the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D., evidence that the Ministry of Interior has made adequate progress in providing the Directorate of Community Development (DIDECO) with sufficient administrative authority to efficiently carry out community basic services activities. The evidence shall include an executed contract for advisory services to DIDECO for implementing improved purchasing, cash control and internal auditing procedures.

SECTION 5.4 Disbursement for Small Enterprise Activities. Prior to disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made to finance small enterprise activities, the GOES will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., a Project Credit Manual containing detailed lending criteria, procedures, interest rate structures and such other information as A.I.D. may require with respect to any and all lending institutions participating in the Project.

SECTION 5.5. Notification. When A.I.D. has determined that the conditions precedent specified in Sections 5.1, 5.2, 5.3 and 5.4 have been met, it will promptly notify the GOES.

SECTION 5.6. Terminal Date for Conditions Precedent.

(a) If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the GOES.

(b) If all of the conditions specified in Section 5.2 have not been met within 90 days from the date of this Agreement and/or if all of the conditions specified in Sections 5.3 and 5.4 have not been met within 120 days from the date of this Agreement, or such other date as A.I.D. may agree in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Loan, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to the GOES. In the event of such termination, the GOES will repay

immediately the principal then outstanding and any accrued interest; on receipt of such payments in full, this Agreement and all obligations of the Parties hereunder will terminate.

SECTION 5.7. Reimbursement. Upon compliance with the conditions precedent to disbursement by the GOES, A.I.D. may disburse Loan or Grant funds to reimburse eligible costs incurred, provided that evidence of such costs is furnished to A.I.D. in form and substance satisfactory to A.I.D.

Article 6: Special Covenants.

SECTION 6.1. Project Evaluation.

(1) The Parties agree to establish an evaluation program as an integral part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas or constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems, in this or other project; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

(2) The GOES further covenants and agrees that.

(a) Only the Central Reserve Bank will act as Administrator of the A.I.D. funds made available pursuant to the Project Agreement.

(b) The GOES will pay all banking charges to the Central Reserve Bank from non-Project resources, and that all interest earned by the Central Reserve Bank through use of A.I.D. funds will be used entirely for purposes of the Project in accordance with the priorities established by the GOES.

(c) Counterpart contributions or other resources will be utilized to finance land purchase, if any, and that A.I.D. funds will not be used for said purposes.

Article 7: Procurement Source.

SECTION 7.1. Foreign Exchange Costs. Disbursements under the Loan pursuant to Section 8.1 will be used exclusively to finance the costs of

goods and services required for the Project having their source and origin in countries included in Code 041 of the A.I.D. Geographic Code Book in effect at the time orders are placed or contracts entered into for such goods and services. Disbursements under the Grant pursuant to Section 8.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in The United States Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services. ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Standard Provisions Annex, Section C.1 (1) with respect to marine insurance.

Ocean Transportation Costs will be financed under the Loan only on vessels under the flag registry of the United States or of Countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing.

Ocean Transportation Costs will be financed under the Grant on vessels under the flag registry of the United States, except as A.I.D. may otherwise agree in writing.

If A.I.D. determines either that there are no vessels under flag registry as described above generally available for ocean transportation, or that the Republic of El Salvador has no access to U.S. flag service, A.I.D. in a Project Implementation Letter may agree to finance under the Assistance transportation costs on vessels under flag registry of any country included in A.I.D. Geographic Code Book 041.

SECTION 7.2. Local Currency Costs. Disbursements for activities pursuant to Section 8.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in member countries of the Central American Common Market, ("Local Currency Costs").

Article 8: Disbursements.

SECTION 8.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the GOES may obtain disbursements of funds under the Loan or the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (i) requests for reimbursement for such goods or services, or (ii) requests for A.I.D. to procure commodities or services in the GOES' behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (i) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letter of Credit or otherwise, for such goods or services, or (ii) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

SECTION 3.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the GOES may obtain disbursements of funds under the Loan or the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement hereunder may be obtained:

(1) by acquisition by A.I.D. with U.S. dollars by purchase; or from local currency already owned by the U.S. Government; or

(2) by A.I.D. (i) requesting the GOES to make available the local currency for such costs, and (ii) thereafter making available to the GOES through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the GOES an amount of U.S. Dollars equivalent to the amount of local currency made available by the GOES which dollars will be utilized for procurement from the United States under appropriate procedures described in Project Implementation Letters.

The U. S. dollar equivalent of the local currency made available hereunder will be, in the case of subsection (b) (1) above, the amount of U.S. dollars required by A.I.D. to obtain the local currency, and in the case of subsection (b) (2) above, an amount calculated at the rate of exchange specified in the applicable Special Letter of Credit Implementation Memorandum hereunder as of the date of the opening or amendment of the applicable Special Letter of Credit.

SECTION 3.3. Other Forms of Disbursement. Disbursements of the Loan or the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 3.4. Rate of Exchange. Except as may be more specifically provided under Section 3.2, if funds provided under the Loan are introduced into El Salvador by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the GOES will make such arrangements as may be necessary so that such funds may be converted

into currency of El Salvador at the highest rate of exchange which, at the time the conversion is made, is not unlawful in El Salvador.

SECTION 8.5. Date of Disbursement. Disbursements by A.I.D. will be deemed to occur (a) on the date on which A.I.D. makes a disbursement to the GOES or to a bank, contractor or supplier pursuant to a Letter of Commitment, or credit; (b) on the date on which A.I.D. disburses to the GOES or its designee local currency acquired in accordance with Section 3.2 (b) (1); or (c) if local currency is obtained in accordance with Section 3.2 (b) (2), on the date on which A.I.D. opens or amends the Special Letter of Credit there referred to.

Article 9: Miscellaneous.

SECTION 9.1. Investment Guaranty Project Approval. Construction work to be financed under this Agreement is agreed to be a project approved by El Salvador pursuant to the agreement between it and the United States of America on the subject of investment guaranties, and no further approval by El Salvador will be required to permit the United States to issue investment guaranties under that agreement covering a contractor's investment in that project.

SECTION 9.2. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the GOES:

Mail Address:

Mr. Minister
Ministry of Planning
San Salvador, El Salvador, C. A. #

To A.I.D.:

Mail Address:

Director, USAID/Mission to El Salvador
American Embassy,
San Salvador, El Salvador, C. A.

Alternate address for telegrams:

USAID
American Embassy
San Salvador, El Salvador, C. A.

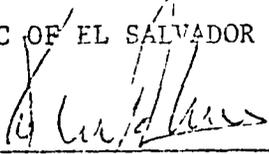
All such communications will be in English and Spanish, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice. The GOES, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D.

SECTION 9.3. Representatives. For all purposes relevant to this Agreement, the GOES will be represented by the individual holding or acting in the office of Minister of Planning and A.I.D. will be represented by the individual holding or acting in the office of Mission Director, USAID Mission to El Salvador, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex I. The names of the representatives of the Borrower with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

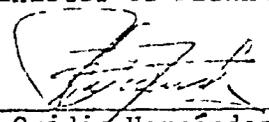
SECTION 9.4. Standard Provisions Annex. A "Combined Loan and Grant Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

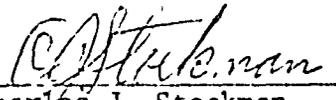
SECTION 9.5. Language of Agreement. This agreement is prepared in both English and Spanish. In the event of ambiguity or conflict between the two versions, the English language version will control.

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

THE REPUBLIC OF EL SALVADOR
By: 
Roberto Salazar Candell

UNITED STATES OF AMERICA
By: 
Robert E. White

Title: Minister of Planning
By: 
Ing. Ovidio Hernández Delgado

Title: Ambassador
By: 
Charles J. Stockman

Title: Minister of the Interior

Title: Director, USAID/El Salvador

Project Description

Annex I

Project Description
Annex I

A. Purpose

The purpose of the Marginal Community Improvement (MCI) Project is to assist the Government of El Salvador (GOES) to meet immediate needs for community basic services, including minimum shelter and productive opportunities for the poor, and to improve GOES capacity to address basic needs of the poor in marginal communities in a comprehensive, coordinated manner.

B. Elements

The Project consists of four elements to be carried out in two phases: (1) the provision of community basic services in marginal communities, including those within areas affected by the Law of Agrarian Reform; (2) organizational assistance to marginal communities within areas affected by implementation of the Law of Agrarian Reform; (3) provision of credit for small production and micro enterprise activity in marginal communities, including land reform areas; and (4) assistance for the planning of more comprehensive and coordinated efforts within the initial three elements during the third and fourth years of the Project.

To initiate the Project, a special MCI fund will be established by the GOES in the Central Reserve Bank which will serve as administrator of all Project funds for the Ministry of Planning Office of Sectorial Coordination (OSC) which will coordinate and support overall Project implementation. Following establishment of the MCI fund, the OSC may authorize the Central Reserve Bank, in turn, to authorize the implementing agencies to obligate up to one half of the available loan funds and all of the available grant funds, as allocated to those agencies. Implementing agencies for respective elements of the project will include:

- (1) Directorate of Community Development, Ministry of the Interior (DIDECO) - Basic Community Services.
- (2) Salvadorean Institute for Agrarian Transformation (ISTA), Ministry of Agriculture -- Agrarian Reform Support
- (3) National Agricultural Development Bank (BFA)/Agricultural Technology Center (CENTA) - Small Producer and Micro-Enterprise Credit in Marginal Communities
- (4) Ministry of Public Works, Vice Minister of Urban Development (VMIUD) - Phase II Planning

After authorization by the OSC, activities to be undertaken by individual agencies within El Salvador's marginal communities will include:

(1) DIDECO -- (Provision of Basic Community Services): Based on specific community demand survey, DIDECO will plan and execute sub-projects to:

(a) provide or upgrade community water systems;

(b) add or extend secondary electrical distribution systems and;

(c) construct and upgrade access roads, streets and bridges. DIDECO will also undertake to provide such needs as schools, health facilities, home improvements, latrines and community centers, parks and recreation facilities. Sub-projects (a), (b) and (c) above will be eligible for financing. Other sub-projects will be undertaken with counterpart funds. Sub-projects will be carried out in marginal communities and must meet selected criteria, to be specified by Project Implementation Letter and to be certified by DIDECO. Grant funds are provided to assist DIDECO to strengthen its institutional capacity to undertake this activity.

(2) ISTA -- (Agrarian Reform Support): ISTA will identify sub-projects of technical interest, in accordance with this Agreement, in those communities in areas where ISTA is carrying out the agrarian reform, which have not been contemplated by DIDECO in its program. In coordination with ISTA, DIDECO will evaluate and include said sub-projects in its work program, in accordance with the availability of funds for the Project. Grant funds are provided to ISTA to fund technical assistance in accounting, management and operation of group owned enterprises and for other necessary assistance in strengthening ISTA's institutional capacity.

(3) BFA/CENTA -- Small Producer and Micro-Enterprise Credit: This project element will expand the availability of credit to very low income agricultural producers and micro-enterprise entrepreneurs in urban and rural marginal communities, including those areas affected by the Law of Agrarian Reform. The BFA, with the Assistance of the Agricultural Technology Center (CENTA), will be responsible for promotional and technical assistance to sub-borrowers. Grant funds are provided to assist BFA and CENTA in training, strengthening their technical, promotional and supervisory capacity.

(4) VITHUD -- (Phase II Planning): Grant funds are provided to permit the GOES, through the VITHUD, to carry out a planning process which will facilitate the solution of shelter problems in secondary

cities in a coordinated, comprehensive manner. Technical assistance financed is for the planning and implementation of reforms which include

- (a) the rationalization of housing finance policies;**
- (b) establishment of simple procedures to legalize sites in urban areas;**
- (c) improved direction of housing sector resources, financial and technical to benefit low-income families and**
- (d) improved shelter coordination. Funds will also be utilized to improve the institutional capability of key agencies expected to have a role under Phase II of the Project implementation and to develop the coordinated procedures necessary to ensure smooth implementation of plans developed.**

Activities to be carried out under Phase II of this Project will consist of a mix of additional community basic services, housing improvements, site legalizations and new shelter solutions to be carried out in secondary cities in conformity with the plans developed under Phase I, including the Phase II planning element. This expansion of coordinated marginal community improvement sub-projects are expected to begin within 12-18 months after the start of Phase I.

C. Commitment of A.I.D. and the GOES.

A.I.D. will provide Loan and Grant funds in support of the Project which will be used for:

- (i) The financing of goods and services required for the implementation of the Project elements addressing the improvement of marginal communities in El Salvador.**
- (ii) Assistance to ISTA for strengthening of its management, accounting, evaluation and administrative capacity.**
- (iii) The financing of expanded production and micro-enterprise lending to low income beneficiaries by MFA.**
- (iv) Procurement of minor construction and office equipment required by DIDECO and technical assistance for strengthening its organizational capacity and to support basic community services.**

- (v) **Technical assistance, training and consultancy services under individual elements of the Project to include:**
- approximately 30 person months to develop the institutional capacity of VTHUD to identify, plan and implement coordinated, comprehensive, low-cost shelter solutions in marginal communities.
 - approximately 12 person months of contract support for the Ministry of Planning to undertake two overall project evaluations.
 - approximately 24 person months to strengthen the institutional capacity of DIDECO to undertake the implementation of the community basic services element and to provide promotional assistance to BFA for the small producer/micro-enterprise element.
 - approximately 12 months for staff development and strengthening of promotional, procedural and technical capacity of BFA, CRITA and DIDECO to permit the expansion of low-income small producer and micro-enterprise lending in marginal communities.

The GOES will establish the special 'ICI fund, including such other counterpart contributions as may be required, including staff, administration salaries, vehicles, equipment and costs of their support including fuel, lubricants and maintenance in order to carry out the Project.

The Fund will be financed by both A.I.D. Assistance and counterpart resources. \$10.0 million in A.I.D. Loan resources and \$950,000 in A.I.D. Grant resources are allocated to the Fund, \$5.0 million of the Loan and \$825,000 in grant of which are obligated by the Agreement, and \$5.0 million in loan funds and \$125,000 in grant funds which are planned for obligation at a later date, subject to the availability of funds to A.I.D. and to the mutual agreement of the Parties, at the time of the subsequent increment, to proceed. \$3.650 million in counterpart resources are allocated to the Fund, \$1.95 million of which are obligated by the Agreement and the remaining \$1.70 million of which are planned for obligation at the time A.I.D. obligates the subsequent loan and grant increment. The Fund will thus total \$14.600 million over the life of the Project as shown in the following table.

D. Summary Budget (In U.S. \$000)

PHASE/ACTIVITY	GOFS	A.I.D.		TOTAL
	Counterpart	Loan	Grant	
A. Phase I*				
1. Community Basic Services	3,650	8,000	200	11,850
2. Agrarian Reform Support			200	200
3. Micro-Enterprises		2,000	150	2,150
4. Planning for Phase II			300	300
B. Evaluation			100	100
T O T A L	3,650	10,000	250	14,600

*Phase I of this Project consists of up to \$5.0 million of A.I.D. Loan funds and \$825,000 Grant funds and corresponding counterpart. Phase II consists of A.I.D. funding in excess of the \$5.0 million Loan funds and funded in excess of the \$825,000 Grant funds, and corresponding counterpart, subject to the availability of funds as stated in Section 2.2 of the Agreement.

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ANNEX II
STANDARD PROVISIONS

Combined Loan and Grant Project Standard Provisions

Annex II

Definitions: As used in this Annex, the "Agreement" refers to the Project Loan and Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters. To assist in the Implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants.

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The GOES will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules, or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Assistance, will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Assistance, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the GOES.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the GOES and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Assistance are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the GOES, the GOES will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Assistance.

SECTION B.5. Reports, Records, Inspections, Audit. The GOES will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Assistance. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Assistance.

SECTION B.6. Completeness of Information. The GOES confirms:

(a) 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 the Assistance, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement, and

(b) that it will inform A.I.D. in a timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. GOES affirms that no payments have been or will be received by any official of the GOES in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in the country of the GOES.

SECTION B.8. Information and Marking. The GOES will give appropriate publicity to the Assistance and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions.

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the GOES will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Assistance will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons (and their personal effects) will be on carriers holding United States certification, to the extent services by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Assistance which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The GOES will furnish to A.I.D. upon preparation:

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the assistance, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services which, though not financed under the Assistance are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a) (2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Assistance will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Assistance for engineering and other professional services, for construction services, and for such other services, equipment, or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the GOES for the Project but not financed under the Assistance the scope of their services and such of

their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the GOES for the Project but not financed under the Assistance shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Assistance. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Assistance the GOES will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the GOES may not be financed under the Assistance if transported either:

(1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment; or

(2) on an ocean vessel which A.I.D., by written notice to the GOES, has designated as ineligible; or

(3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Assistance, if such goods or persons are carried:

(1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or

(2) on an ocean vessel which A.I.D., by written notice to the Cooperating Country, has designated as ineligible; or

(3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels:

(1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels; and

(2) at least fifty percent (50%) of the gross freight revenue generated by all shipment financed by A.I.D. and transported to the territory of the GOES on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels.

Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and also any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Cooperating Country may be financed as a Foreign Exchange Cost under this Agreement provided:

(1) such insurance is placed at the lowest available competitive rate, and

(2) claims thereunder are payable in the currency in which such goods were financed or in any freely convertible currency. If the GOES by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the GOES financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the GOES will insure, or cause to be insured, goods financed under the Assistance imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the GOES under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the GOES for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.3. U.S. Government-Owned Excess Property. The GOES agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Assistance, should be utilized. Funds under the Assistance may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Cancellation by GOES. The GOES, may, by giving A.I.D. 30 days written notice, cancel any part of the Loan or the Grant which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if the GOES shall have failed:

(a) to pay when due any interest or installment of Principal required under this Agreement, or

(b) to comply with any other provision of this Agreement, or

(c) to pay when due any interest or installment of Principal or other payment required under any other loan, guaranty or other agreement between the GOES or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the GOES notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

(1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and

(2) the amount of any further disbursements made pursuant to the outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

(a) an Event of Default has occurred; or

(b) an event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Assistance will be attained or that the GOES will be able to perform its obligations under this Agreement; or

(c) any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(d) the GOES shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the GOES or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the GOES;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Assistance be transferred to A.I.D. if the goods are from a source outside El Salvador, are in a deliverable state and have not been offloaded in ports of entry of El Salvador. Any disbursement made under the Loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursements, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.

SECTION D.6. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the GOES to refund the amount of such disbursement in United States Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of the GOES to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the GOES to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d)

(1) Any refund under the preceding subsection, or

(2) any refund under Subsection (a) or (b) or (3) any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Assistance which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will:

A. be made available first for the cost of goods and services required for the Project, to the extent justified, and

B. the remainder, if any, (i) if derived from Loan funds, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder, and (ii) if derived from Grant funds, will be applied to reduce the amount of the Grant.

C. Any interest or other earnings on Grant funds disbursed by A.I.D. to the GOES under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the GOES.

SECTION D.7. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.8. Assignment. The GOES agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the GOES in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.