

A.I.D. Grant No. 180-T-601

GRANT AGREEMENT

between

THE GOVERNMENT OF THE REPUBLIC OF HUNGARY

and

THE GOVERNMENT OF THE UNITED STATES OF AMERICA

FOR SUPPORT OF THE

ENERGY SECTOR REFORM PROGRAM

OF THE GOVERNMENT OF THE REPUBLIC OF HUNGARY

Date:

TABLE OF CONTENTS

Article I:	The Grant
Article II:	Conditions Precedent to Disbursement
Section 2.1.	Conditions Precedent
Section 2.2.	Notification
Section 2.3.	Terminal Date for Conditions Precedent
Article III:	Disbursement
Section 3.1.	Disbursement of the Grant
Section 3.2.	Date of Disbursement
Article IV:	Grant Proceeds
Section 4.1.	Dollar Separate Account
Section 4.2.	Uses of Funds Drawn from Dollar Separate Account
Article V:	Local Currency Deposits
Section 5.1.	Local Currency Separate Account
Section 5.2.	Uses of Funds Drawn from Local Currency Separate Account
Article VI:	Covenants
Section 6.1.	Evaluations and Audits
Section 6.2.	Charges
Article VII:	Reports, Records, Audit, and Remedies
Section 7.1.	Reports
Section 7.2.	Records, Inspection, Audit
Section 7.3.	Suspension of Disbursements
Section 7.4.	Termination
Section 7.5.	Redeposit of Funds to Separate Account
Article VIII:	Miscellaneous
Section 8.1.	Communications
Section 8.2.	Representatives
Section 8.3.	Program Implementation Letters
Section 8.4.	Amendment
ANNEX A -	Program Description

PROGRAM GRANT AGREEMENT

Grant Number 180-T-601

Between

THE GOVERNMENT OF THE REPUBLIC OF HUNGARY ("Grantee")

and

THE GOVERNMENT OF THE UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D.")

ARTICLE I

The Grant

To assist the Grantee with regard to both policy initiatives and implementation aspects of its Energy Sector Reform program, with particular emphasis on pricing reforms ("the Program") as more fully described in Annex A, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, and the "Assistance for Eastern Europe" provision of the Foreign Operations, Export Financing, and Related Appropriations Act, 1991, agrees to grant to the Grantee under the terms of this Agreement not to exceed 10.0 million United States dollars (\$10,000,000) (the "Grant"). Elements of the description of the Program stated in Annex A may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this agreement.

ARTICLE II

Conditions Precedent to Disbursement

SECTION 2.1. Conditions Precedent

Before disbursement of the Grant, or issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., or A.I.D. will be otherwise satisfied of:

(a) a statement of the name(s) of the person(s) holding or acting in the office(s) specified in Section 8.2, and of any

additional representatives, together with a specimen signature of each person so designated;

(b) a designation of the dollar separate bank account into which the Grant proceeds are to be deposited, together with assurance that the account is established and will be maintained in the manner required by Article IV;

(c) a designation of the local currency separate bank account into which the Grantee will make required local currency deposits, together with assurance that the bank account is established and will be maintained in the manner required by Article V, and designation of the sub-account in the Social Security Administration required under Annex A to this Agreement;

(d) evidence that new authority exists and is in effect for the provision of additional means-tested supplemental assistance for low-income pensioners and families receiving allowances for raising children in order to offset the costs of increased energy prices, which will permit payments to this group of the \$10 million equivalent in forint provided under the Grant plus additional sums from other Grantee resources;

(e) an opinion of the Ministry of Justice, or other counsel acceptable to A.I.D., stating that this Agreement has been duly authorized and executed on behalf of the Grantee in accordance with all of its terms, and that it constitutes a valid and binding obligation of the Grantee in accordance with all of its terms.

SECTION 2.2. Notification

When A.I.D. has determined that the Conditions Precedent specified in Section 2.1. have been met, it will promptly so notify the Grantee.

SECTION 2.3. Terminal Date for Conditions Precedent

If the Conditions Precedent specified in Section 2.1 have not been met within ninety (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 Grantee.

ARTICLE III

Disbursement

SECTION 3.1. Disbursement of the Grant

After satisfaction of the above Conditions Precedent, A.I.D. will deposit the Grant into the bank account designated by the Grantee pursuant to Section 2.1 (b).

SECTION 3.2. Date of Disbursement

Disbursement by A.I.D. will be deemed to occur on the date A.I.D. makes the deposit in accord with Section 3.1.

ARTICLE IV

Grant Proceeds

SECTION 4.1. Dollar Separate Account

The Grant will be deposited to an interest bearing dollar separate bank account (the "Dollar Separate Account") established by the Grantee solely for the receipt of this Grant together with any interest earned on the Grant proceeds. It may not be commingled with other funds from whatever source. Interest or other earnings will be treated under the terms of this Agreement as though it were principal (i.e., Grant proceeds), except for payment of normal banking charges.

SECTION 4.2. Uses of Funds Drawn from the Dollar Separate Account

Grant proceeds may be drawn from the Dollar Separate Account only for uses and in accord with procedures agreed upon by the Parties, for reimbursement of net dollar costs reasonably incurred in connection with the import from the United States of eligible raw materials, intermediate and capital goods, and essential consumer goods, as approved by A.I.D. Under no circumstances will eligibility for this purpose include items related in any way to surveillance; abortion; gambling; weather modification; or military, paramilitary, police, or law enforcement functions.

ARTICLE V

Local Currency Deposits

SECTION 5.1. Local Currency Separate Account

(a) The Grantee will deposit to an interest bearing separate bank account (the "Local Currency Separate Account"), established solely for this purpose, currency of Hungary equal to the amount of U.S. dollars released to the Grantee pursuant to Section 4.2, plus any interest or other such earnings on such dollars, calculated at the highest legal rate of exchange at the date of the release. These deposit(s) to the Local Currency Separate Account must take place within three (3) banking days of the date(s) on which the dollar disbursement and interest or other such earnings are released from the Dollar Separate Account.

(b) Funds deposited into the Local Currency Separate Account shall not be commingled with funds from any other source, except for earnings on the same funds. Interest or other earnings shall be programmed as though it were principal, after deduction of normal banking charges.

SECTION 5.2. Uses of Funds Drawn from Local Currency Separate Account

Funds may be drawn from the Local Currency Separate Account only in accord with agreed procedures in direct support of Grantee's energy pricing reform program as identified in Annex A. Under no circumstances may the funds be used for or in support of surveillance; abortion; gambling; weather modification; or for military, paramilitary, police, or law enforcement functions.

ARTICLE VI

COVENANTS

SECTION 6.1. Evaluations

The Parties agree to establish an evaluation program. Except as the Parties otherwise agree in writing, the evaluation

program will include, at one or more points during the implementation of the energy pricing reform program:

(1) evaluation of reasonable progress toward attainment of the objectives of the Program;

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

(3) assessment of how such information may be used to help overcome such problems; and

(4) evaluation, to the degree feasible, of the overall development impact of the Program.

SECTION 6.2. Charges

This Agreement and the Grant funds will not be used for payment of charges imposed under the laws in effect in Hungary, or which may become effective during the term of this Agreement.

ARTICLE VII

REPORTS, RECORDS, AUDIT, AND REMEDIES

SECTION 7.1. Reports

The Grantee shall furnish to A.I.D., in form and substance satisfactory to A.I.D., such information and reports relating to this Agreement as A.I.D. may reasonably request, including information and quarterly reports demonstrating that the funds deposited in the Dollar and Local Currency Separate Accounts pursuant to Articles IV and V, respectively, were used for agreed upon purposes.

SECTION 7.2. Records, Inspection, Audit

The Grantee will:

(a) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books, records, and underlying documentation as necessary and adequate to assure, without limitation, compliance with this agreement. Such books and records will be audited regularly, in accordance with generally

accepted auditing standards, and will be maintained by the Grantee for three (3) years after the date of the last disbursement by A.I.D. or the last withdrawal from or closing of both the Dollar Separate Account and the Local Currency Separate Account, whichever date is the latest. This requirement to maintain adequate books, records, and underlying documentation as necessary applies to both disbursements into and payments out of the Dollar Separate Account and the Local Currency Separate Account.

(b) afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the books, records, and other documents relating to this Agreement and to the use of disbursements into and payments out of the Dollar Separate Account and the Local Currency Separate Account.

SECTION 7.3. Suspension of Disbursements

A.I.D. may suspend disbursements into the Dollar Separate Account upon prompt written notice to the Grantee if either (a) the Grantee is not in compliance with the terms and conditions of this Agreement, or (b) such disbursements would be in violation of any law or regulation governing A.I.D. Such a suspension will not affect the responsibilities of either party with respect to any portion of the Grant disbursed before the suspension.

SECTION 7.4. Termination

Either party may terminate this Agreement by giving the other party thirty (30) days written notice. Such a termination will not affect the responsibilities of either party with respect to any portion of the Grant proceeds disbursed before the termination.

SECTION 7.5. Redeposit of Funds to Separate Account

If any of the money deposited in the Dollar Separate Account or the Local Currency Separate Account is used for purposes not permitted under the Agreement, or if any use of the money is not supported by documentation required under the Agreement and applicable Program Implementation Letters, the Grantee agrees to redeposit, within 60 days after receiving notice from A.I.D. of such a condition, except as A.I.D. may agree otherwise in writing, an equivalent amount of funds into the appropriate Separate Account. Funds so redeposited shall be used only for

purposes permitted under this Agreement. If the Grantee fails to meet this redeposit requirement within the time allowed, the Grantee will promptly refund to A.I.D. the dollar or dollar equivalent amount.

ARTICLE VIII

MISCELLANEOUS

SECTION 8.1. 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 addresses:

To Grantee:

Director General for Industrial Developed Countries
Ministry of International Economic Relations
1005 Budapest

To A.I.D.:

U.S.A.I.D./Budapest
United States Embassy
Budapest, Hungary

All such communications will be in English. Other addresses may be substituted for the above by written notice.

SECTION 8.2. Representatives

For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Director General for Industrial Developed Countries in the Ministry of International Economic Relations, and A.I.D. will be represented by the individual holding or acting in the office of the Representative of A.I.D. in Budapest, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, 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 8.3. Program Implementation Letters

To assist in the implementation of this Agreement, including the explanation or clarification of proper uses and procedures for disbursement, deposits, and withdrawals related to the Dollar Separate Account and the Local Currency Separate Account, A.I.D. may issue Program Implementation Letters (PILs) that will furnish additional information about matters stated in the Agreement.

SECTION 8.4. Amendment

This Agreement may be amended by execution of written amendments by the authorized representatives of the Parties.

SECTION 8.5. Official Language

This Agreement is being signed in English and Hungarian language versions. In the event that contradictions occur between the versions, the English language version will be the determining text.

IN WITNESS WHEREOF the undersigned, being duly authorized by their respective governments, have signed this agreement.

DONE at _____, in duplicate, in English this
_____ day of _____ 1991.

FOR THE GOVERNMENT OF THE
REPUBLIC OF HUNGARY:

FOR THE GOVERNMENT OF THE
UNITED STATES OF AMERICA:

Hungary Energy Sector Grant, 180-0044

CLEARANCES:

Robert Ichord, ENE/DR/ENR	_____	Date: _____
Herb Morris, GC/ENE	_____	Date: _____
Robert Nachtrieb, ENE/RME	_____	Date: _____
Denton Larson, ENE/RME/Controller	_____	Date: _____
Frank Almaguer, ENE/RME	_____	Date: _____
David Merrill, ENE/DAA	_____	Date: _____

PAAD Number: 180-T-601
BPC: QAIX-91-33180-IG-39 (184-63-180-01-69-11)
Approp. Symbol: 72-11X1010
Amount \$10,000,000

Hungary Energy Sector Grant Program

SUMMARY DESCRIPTION

The Energy Sector Grant program for Hungary will consist of a one year grant of \$10 million to the Government of Hungary (GOH) represented for the purposes of this Grant by the Ministry of Finance. The funds will be disbursed in a single tranche following policy reforms within the energy sector and GOH budget allocations to provide supplemental payments to low income groups affected by these reforms.

The GOH has initiated a program to drastically reform energy pricing structures. The Grant will use the local currencies allocated under the Grant to enable provision of means-tested supplemental assistance for low-income energy consumers. The GOH has established a Fund to provide such assistance along with other assistance for affected groups. The local currencies generated by this Grant will be provided as a portion of the funds for the assistance. The pricing reforms, including subsidy reduction, are the important first step in the energy reform agenda, and the Grant, by providing a safety net for low income energy consumers, assists the GOH in accelerating these reforms and the payments noted above.

The program will provide a quick disbursing source of foreign exchange and at the same time have a maximum positive impact on the energy sector through policy formulation, adoption and implementation supported by A.I.D.

A. The Dollar Component

The Energy Sector Grant will provide \$10.0 million to be used for reimbursement for general imports for Hungary. The Grant will be used to support the SAL of the World Bank under a parallel financing arrangement. The dollar Grant is to be used to reimburse the Grantee for imports of U.S. goods, eligible for A.I.D. financing, which have been financed by Hungarian foreign exchange resources.

It is anticipated that implementation of the energy pricing reforms will be assisted by a U.S.-funded advisor or advisors funded by a separate A.I.D. project.

Process for the Cash Disbursement - The following set of procedures will be used for disbursement of funds to the Grantee, to be carried out in collaboration with the National Bank of Hungary (which serves as the Central Bank):

1. Upon satisfaction of conditions precedent to disbursement, the Ministry of Finance will request A.I.D. to undertake the disbursement of the \$10.0 million dollars.

2. Upon receipt of the request, A.I.D. will authorize the disbursement of dollars in the form of cash through an Electronic Funds Transfer effected by the U.S. Treasury to an interest bearing Dollar Separate Account in the Federal Reserve Bank of New York on behalf of the National Bank of Hungary (NBH) and established for the purpose of receiving these funds. The Grant Agreement will require the NBH to provide assurances that this Dollar Separate Account will preclude the mingling of sector grant dollar funds with other resources. Any interest earned by these funds will be credited to and deposited in the Dollar Separate Account in the NBH.

3. A.I.D. will approve the release of the dollar funds from the Dollar Separate Account in an amount equal to the value of eligible imports from the U.S. shown in documentation provided to A.I.D. by the NBH. This documentation may be provided at the same time as the request, or at any time thereafter. However, to comply with the quick disbursement intent of the assistance, the NBH will be encouraged to submit this documentation as soon as possible.

4. Upon verification of the documents by A.I.D. or its representative (for example, a certified public accounting firm), A.I.D. will authorize the release of the equivalent dollar amount deposited in the Dollar Separate Account, plus any interest earned, to the general foreign currency accounts of the NBH.

Criteria for Import Credit Reimbursement - Reimbursement under the Sector Grant program for eligible import transactions will be made from the Dollar Separate Account. The Grant uses eligible U.S. imports as a trigger mechanism to control the release of funds. The NBH will produce the agreed-on documentation supporting eligible transactions undertaken by any parties in Hungary for a period of one year following signature of the Grant Agreement, unless otherwise agreed in writing by A.I.D., for importation of the proposed eligible products.

Before the release of the dollars, the documentation will be reviewed by A.I.D. or its representative in accordance with the previously approved criteria for eligible import transactions. The imports eligible for "reimbursement credit" include: raw materials, intermediate goods, spare parts, capital goods and technical services from the United States.

The following goods and services are ineligible for reimbursement:

- Commodities financed by A.I.D. under PL-480
- Technical services financed by A.I.D. or any other Agency of the U.S. Government
- Pesticides
- Fertilizer (during February through May)
- Passenger cars
- Firearms, explosives and ammunition
- Rubber compounding chemicals and plasticizers
- Military equipment
- Police equipment
- Weather modification equipment
- Surveillance equipment
- Luxury goods (such as gold, silver, coins/stamps, alcoholic beverages, jewelry, and fine furs)
- Abortion equipment
- Gambling equipment
- Non-durable consumer goods

To obtain reimbursement for eligible imports, the NBH will present A.I.D. with the import transaction documentation totalling at least the dollar funds for which release is being requested, plus evidence that the goods have been shipped to Hungary, and the completion of the required payment. Upon receipt of this information, A.I.D. will satisfy itself that the documentation contains eligible transactions equal to the requested dollar release, plus estimated interest earned on funds deposited in the Separate Account for which the NBH can be reimbursed. The NBH will retain supporting documentation for a period of three years after disbursement of the sector Grant, which will be available to A.I.D. or its representative for the purpose of periodic audit.

The review of the import transactions submitted by the NBH will be performed by A.I.D. or, on its behalf, by a recognized local accounting firm in accordance with the criteria set forth in the Grant Agreement or implementation letters. The review must confirm that:

1. The good is on the approved list;
2. The good's source and origin is in the United States;
3. The goods or services are not financed by A.I.D. or any other Agency of the U.S. Government;
4. The NBH has on file the application and approval of foreign exchange, a copy of the supplier's invoice, and the bill of lading confirming shipment of the goods; and

5. The importer has made the required payment for the goods or services.

Monitoring of the Dollar Disbursement and Releases - The Dollar Separate Account will be monitored by A.I.D. The NBH will advise A.I.D. of any movement in the account, including interest earned, via telex, FAX, or letter as the circumstances may dictate. Bank statements for the Dollar Separate Account are to be provided directly to A.I.D. at least once a month as long as there are funds remaining in the account. After the funds have been fully released from the Dollar Separate Account, the BNB will provide A.I.D. with a copy of a statement for the transfer. A.I.D. monitoring will ensure that all dollar releases are based on complete documentation as required above.

B. Local Currency Component

1. The parties have agreed that by virtue of this U.S. dollar Grant, the Grantee will be able to supplement its program to assist consumers adversely affected by energy price increases with an amount of forint equivalent to the U.S. grant amount. This \$10 million in forint provided under the Grant will be utilized for payments to one of the groups of beneficiaries participating in this assistance, namely, means-tested low income pensioners and families with children receiving allowances in order to offset the costs of increased energy prices ("the target group"). Initial payments to this target group have already been made by the Grantee under existing legal authority in the approximate amount of 2 billion in forint. Once new legal authority becomes effective, the \$10 million equivalent in forint provided under this Grant in addition to further funding from other Grantee resources, will be utilized for additional payments to the target group.

A condition precedent to dollar disbursement under this Grant will be evidence of the existence and effectiveness of the aforementioned authority required to provide this additional assistance to the target group. The parties have also agreed that since the GOH's Social Security Administration (SSA) is responsible for other activities in addition to this program for the target group, a special sub-account will be established under the SSA account for payments to the target group, all forint provided under the Grant and from other Government resources for this assistance will be deposited in this special sub-account, and all payments to the target group using these funds will be made from the special sub-account.

2. After satisfaction of the conditions precedent, these dollars provided under this Grant will be disbursed to Grantee based on the procedures described above. Within three (3) days

after A.I.D. authorizes the release of dollars in the Dollar Separate Account for Grantee utilization, the Grantee will deposit an equivalent amount of local currency into its Local Currency Separate Account, established in NBH. These funds will not be commingled with any other funds, except for interest or other earnings, while deposited in this Separate Account. The Grantee will certify to A.I.D. that the deposit to the Local Currency Separate Account has occurred and when it deems appropriate, transfer an amount or amounts from the Local Currency Separate Account to the special SSA sub-account for the purpose of enabling the GOH to make payments from the sub-account to the qualified target group. Grantee will keep records and other evidence to demonstrate that \$10 million equivalent in forint plus those local currency funds from other sources committed for the same purpose are expended for the payments to qualified target group beneficiaries.

A.I.D. will maintain audit rights to assure the allocations from the Local Currency Separate Account and from the Grantee's other budget resources to the special SSA sub-account and that payments for the agreed-upon purpose were made.

Monitoring of Local Currency Disbursement and Transfer - The NBH will advise A.I.D. of the initial deposit, any interest earned, and transfer to the Grantee budget for energy pricing reform activities via telex, FAX, or letter as the circumstances may dictate. Bank statements from the NBH for the Local Currency Separate Account are to be provided directly to A.I.D. at least once a month as long as there are funds remaining in the account. After the local currency has been released from the Local Currency Separate Account, the NBH will provide A.I.D. with a copy of a statement for the transfer. A.I.D. monitoring will ensure that all local currency deposits, transfers and allocations occur in a timely fashion and to the agreed upon uses.

C. Monitoring Reports

During such time as dollars and local currencies are in their respective separate accounts, Grantee will provide A.I.D. with quarterly reports to monitor the disbursement, release, allocation and transfer of funds. To monitor expenditure of local currency funds, the Grantee will provide A.I.D. with such reports as are required to verify expenditures as described in paragraph B, above. At its discretion and with reasonable notice, A.I.D. may ask to review underlying documentation supporting these reports.

DOC WP51 ANNEXA01.HUN GVG 8/16/91;revised,PD,HM; 9/10/91