

No. 19903

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**UNITED STATES OF AMERICA  
and  
EL SALVADOR**

**Project Loan Agreement for small farm irrigation systems  
(with annexes). Signed at San Salvador on 30 August  
1978**

*Authentic texts: English and Spanish.*

*Registered by the United States of America on 10 June 1981.*

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
EL SALVADOR**

**Accord de prêt pour un projet relatif à des systèmes  
d'irrigation des petites exploitations agricoles (avec  
annexes). Signé à San Salvador le 30 août 1978**

*Textes authentiques : anglais et espagnol.*

*Enregistré par les États-Unis d'Amérique le 10 juin 1981.*

# PROJECT LOAN AGREEMENT<sup>1</sup> BETWEEN EL SALVADOR AND THE UNITED STATES OF AMERICA FOR SMALL FARM IRRIGATION SYSTEMS

Dated: August 30, 1978

A.I.D. Loan Number 519-T-021

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<sup>1</sup> Came into force on 30 August 1978 by signature.

<sup>2</sup> For the text of the annex, see "Project Loan Agreement between the United States of America and the Philippines for Bicol integrated area development, signed at Manila on 13 January 1978" in United Nations, *Treaty Series*, vol. 1229, No. I-19857.

PROJECT LOAN AGREEMENT dated August 30, 1978, between the REPUBLIC OF EL SALVADOR ("Borrower") and 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 Borrower of the Project described below, 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 I, will consist of a program for the development of small-scale irrigation systems to increase the production and productivity of the small farmer in El Salvador. The Project will be carried out by the Ministry of the Interior through the Division of Community Development (DIDECO), by means of their Office of Small Scale Irrigation Systems (OSSIS) and with the collaboration of the Ministry of Agriculture and Livestock (MAG) through the Division of Irrigation and Flood Control (DGRD).

Within the limits of the above definition of the Project, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 9.3, without formal amendment of this Agreement.

### *Article 3. FINANCING*

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, A.I.D., in furtherance of the Alliance for Progress and pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Borrower under the terms of this Agreement not to exceed two million three hundred thousand United States ("U.S.") dollars (\$2,300,000) ("Loan"). The aggregate amount of disbursement under the Loan is referred to as "Principal."

The Loan 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. BORROWER RESOURCES FOR THE PROJECT.* (a) The Borrower agrees to provide or cause to be provided for the Project all funds, in addition to the Loan, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by Borrower for the Project will be not less than the equivalent of U.S. \$2,000,000 including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is September 1, 1983, 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 Loan will have been performed and all goods financed under the Loan 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 Loan 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 8.1 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 Borrower, may at any time or times reduce the amount of the Loan 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 Borrower 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 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 8.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

*Section 4.2. REPAYMENT.* The Borrower will repay to A.I.D. the Principal within twenty (20) years from the date of the first disbursement of the Loan in twenty-one (21) 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 Borrower 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 Borrower 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 Borrower 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 Borrower 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 Borrower's Minister of Planning in 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 Borrower and A.I.D. under it will cease.

#### *Article 5. CONDITIONS PRECEDENT TO DISBURSEMENT*

*Section 5.1. FIRST DISBURSEMENT.* Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower will 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. to the effect that the Loan Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower, and that it constitutes a valid and legally binding obligation of the Borrower in accordance with all of its terms;
- (b) A statement of the name of the person holding or acting in the office of the Borrower specified in Section 9.3, and of any additional representatives, together with a specimen signature of each person specified in such statement;
- (c) A Time Phased Implementation Plan for the Project including the following:
  - (1) The criteria for the selection of subprojects;
  - (2) Plans for the training of extension agents, engineer agronomists and community promoters, including selection criteria;
  - (3) Written evidence that the Ministry of Agriculture and Livestock (MAG), through the National Center for Agricultural Research (CENTA), will provide agricultural extension services for the Project;
  - (4) Plans for the maintenance of the irrigation systems built under the Project;
  - (5) Plans for the utilization of long and short term technical assistance;
  - (6) Initial guidelines for the formation and operation of community groups for the small-scale irrigation subprojects;
- (d) Evidence of the establishment of the Office of Small Scale Irrigation Systems (OSSIS) with staffing acceptable to A.I.D.;
- (e) Evidence of the allocation of adequate GOES budgetary support to OSSIS and to the Project;
- (f) Evidence of a written executive agreement between the Ministries of Agriculture and Livestock, and of the Interior, providing for appropriate definition of the Project related roles of DIDECO and DGRD.

*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, subsequent to September 30, 1981, the Borrower will furnish to A.I.D. in form and substance satisfactory to A.I.D., a policy statement setting forth over a ten year period the plans of the Borrower with respect to small scale irrigation development, including a commitment by the Borrower to engage in research and development of alternative systems.

*Section 5.3. NOTIFICATION.* When A.I.D. has determined that the conditions precedent specified in Section 5.1 and 5.2 have been met, it will promptly notify the Borrower.

*Section 5.4. TERMINAL DATES FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met within 180 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 Borrower.

#### *Article 6. SPECIAL COVENANTS*

*Section 6.1. PROJECT EVALUATION.* The Parties agree to establish an evaluation program as 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; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

*Section 6.2. ADDITIONAL COVENANTS.* Borrower hereby covenants and warrants:

- (a) To carry out the Project in accordance with site selection procedures acceptable to A.I.D. and to ensure that beneficiaries of the irrigation systems constructed under the Project are members of the community group organized for each sub-project;
- (b) To establish a Project Committee consisting of representatives from the Ministry of the Interior (MI) and the Ministry of Agriculture and Livestock (MAG), for the purpose of systematic oversight and evaluation of the Project;
- (c) To provide continuing budgetary and personnel support for the maintenance of irrigation systems built under the Project;
- (d) To provide, for at least five years after final disbursement under the Loan, sufficient budgetary allocations to DGRD and DIDEKO to maintain OSSIS staff and budget at sufficient levels to maintain the same level of small-scale irrigation subproject promotion and construction that took place during Loan disbursement;
- (e) To provide appropriate complimentary services to the small farmer beneficiaries of the Project, such as production credit, agricultural production inputs and marketing information and support;
- (f) That the equipment obtained with Loan funds will be utilized only in the conduct of the Project during the life of the Project, and only for the continuation of the organization, construction and maintenance of small scale irriga-

tion projects among the Project beneficiary group for the duration of the life of the equipment.

#### *Article 7. PROCUREMENT SOURCE*

*Section 7.1. FOREIGN EXCHANGE COSTS.* Disbursements 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 (other than countries of the Central American Common Market) included in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Loan Standard Provisions Annex, Section C.1 (b) with respect to marine insurance.

*Section 7.2. LOCAL CURRENCY COSTS.* Disbursements 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 the Central American Common Market.

#### *Article 8. DISBURSEMENTS*

*Section 8.1. DISBURSEMENT FOR FOREIGN EXCHANGE COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan 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, (A) requests for reimbursement for such goods or services, or (B) requests for A.I.D. to procure commodities or services in Borrower's behalf for the Project; or
- (2) By requesting A.I.D. to issue Letters of Commitment for specified amounts (A) 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 (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by Borrower in connection with Letters of Commitment and Letters of Credit will be financed under the Loan unless the Borrower instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Loan.

*Section 8.2. DISBURSEMENT FOR LOCAL CURRENCY COSTS.* (a) After satisfaction of conditions precedent, the Borrower may obtain disbursements of funds under the Loan 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

- (2) By A.I.D. (A) requesting the Borrower to make available the local currency for such costs, and (B) thereafter making available to the Borrower through the opening or amendment by A.I.D. of Special Letters of Credit in favor of the Borrower or its designee an amount of U.S. dollars equivalent to the amount of local currency made available by the Borrower, 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 8.3. OTHER FORMS OF DISBURSEMENT.* Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

*Section 8.4. RATE OF EXCHANGE.* Except as may be more specifically provided under Section 8.2, 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 Borrower 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 Borrower or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment, contract, or purchase order; (b) on the date on which A.I.D. disburses to the Borrower or its designee local currency acquired in accordance with Section 8.2 (b) (1); or (c) if local currency is obtained in accordance with Section 8.2 (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 Borrower:

Mail Address:

Mr. Minister  
Ministry of Interior  
San Salvador, El Salvador, C. A.



Alternate address for telegrams:

Mr. Minister  
Ministerio del Interior  
Palacio Nacional  
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 Borrower, 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 Borrower will be represented by the individual holding or acting in the offices of the Minister of the Interior, 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 "Project Loan 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 Borrower 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.

El Salvador:

By: [Signed]

General ARMANDO LEONIDAS  
ROJAS

Title: Minister of the Interior

United States of America:

By: [Signed]

Ing. ALDELMO RUIZ

Title: Director, USAID/El Salvador

## PROJECT DESCRIPTION

## ANNEX I

A. *Purpose.* The specific purpose of the Small Farm Irrigation Systems Project is to expand the capability of the GOES to assist low income small farmers obtain and utilize needed water resources.

B. *Description.* The Project consists of a program for the development of small-scale irrigation systems to increase the production and productivity of the small farmer in El Salvador.

Project implementation will be carried out by the Ministry of the Interior (MI) through the Division of Community Development (DIDECO), by means of their Office of Small Irrigation Systems (OSSIS), and with the collaboration of the Ministry of Agriculture and Livestock (MAG) through the Division of Irrigation and Flood Control (DGRD).

To effect project implementation a project office will be established. The project office will be called the "Office of Small Irrigation Systems" (OSSIS) and will function as an office of DIDECO. The OSSIS will be staffed by personnel from both DGRD and DIDECO and funded by budgetary allocations from each Division. OSSIS will have the responsibility for drawing up plans and detailed specifications for each subproject. Members of the OSSIS will supervise the actual construction of the sub-projects and provide subsequent technical assistance to the beneficiaries in the maintenance and operation of their irrigation systems.

DIDECO will provide community organization support services and organize the labor force in each community using its staff of promoters. Each promoter will determine community interest for a small scale irrigation project by developing contacts with the local leadership and informing the OSSIS of this interest, prompting a feasibility analysis by engineers assigned to the OSSIS. Following determination of technical feasibility (principally determining whether there is enough water supplied by the source—river, stream, reservoir, spring etc.—to irrigate the area of land contemplated and whether the site lends itself to simple and uncomplex construction methods and materials), the OSSIS staff will determine the economic feasibility of the subproject. DIDECO's promoters then will organize the local labor force in connection with the community leadership, set up a community group and, in general, serve as a link to the OSSIS for the community and the subsequent construction of the irrigation subproject.

Participating in the implementation of the project will be the National Center for Agricultural Research (CENTA) which will provide approximately 100 extension agents to be trained in water and land use management during the first 3 years of the project. These extension agents will remain under the direction of CENTA and be funded out of CENTA's budget allocation from the GOES.

Additionally, the MAG will have a role in the project by providing market information to the OSSIS on basic grains, fruits and vegetables. A portion of the personnel of the project office will devote time, as needed, to providing subproject beneficiaries, through DIDECO's promoters, advice on marketing problems and general market information on the crops planted in each subproject. The promoters, in their turn, will maintain detailed information on before and after irrigation conditions in their subprojects and provide this information to the relevant personnel in the OSSIS. The promoters also will assist in the evaluations of the project by this provision of data and their contact with the communities and subprojects.

Loan financed technical assistance provided by the project advisor, in addition to the construction materials, equipment and training financed by the loan, together with GOES budget and staff support will strengthen the institutional capacities of DGRD and DIDECO. This technical assistance, combined with the increased experience in small scale irrigation project development, will assist the GOES in its research and development efforts of alternative types of small scale irrigation designed to improve and expand related tech-

nologies to facilitate optimum development of irrigation within the small farm sector. The training provided to the extension agents of CENTA will add to their capabilities and provide a new facet to that institution's capacity for reaching the small farmer target group.

Small farmer groups that participate in the project will not be required to pay costs of the irrigation systems constructed. The GOES will in effect grant part of the cost of each system to the community. Each community will, however, provide all the required labor for its system construction plus additional local materials.

The project will be implemented throughout the country giving priority to critical development areas and wherever feasible small scale appropriate technology irrigation projects may be undertaken with the target group and where sufficient community interest exists to provide the necessary self-help local labor and materials for construction.

*C. AID and GOES Commitments.* AID will provide loan funds in support of the Project which will be used for:

- (i) Construction of approximately 5,000 hectares of small scale irrigation systems, including construction materials and equipment;
- (ii) Project support vehicles;
- (iii) Short-term training in irrigation science for approximately 4 engineer-agronomists;
- (iv) Approximately 48 person-months of technical assistance in the form of a long-term Project advisor from the U.S. to assist in and coordinate all implementation activities; and
- (v) Approximately 12 person-months of short-term technical assistance to assist in the implementation and evaluation of the Project.

The GOES will establish the OSSIS and provide for its necessary staffing. The GOES also will provide administration and salary costs of all personnel to work in the OSSIS and will provide all Project vehicles' support costs such as fuel, lubricants and maintenance. Communities that participate in the Project will contribute their labor and locally available construction materials.

#### D. Summary Financial Plan

	A.I.D. Loan	Host Country		Total
		Government	Private	
<i>(In US \$000 or equivalent)</i>				
Construction Materials & Equipment . . .	\$1,250			\$1,250
Vehicles . . . . .	275			275
Technical Assistance . . . . .	320			320
Participant Training . . . . .	70			70
Administration . . . . .		\$1,322		1,322
Fuel, Lubricants & Maintenance . . . . .		245		245
Overhead . . . . .		165		165
Local Labor . . . . .			980	980
Inflation & Contingency . . . . .	385	268	220	873
TOTAL	\$2,300	\$2,000	\$1,200	\$5,500