

**No. 19857**

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**UNITED STATES OF AMERICA  
and  
PHILIPPINES**

**Project Loan Agreement for Bicol integrated area development (with annexes). Signed at Manila on 13 January 1978**

*Authentic text: English.*

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

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**ÉTATS-UNIS D'AMÉRIQUE  
et  
PHILIPPINES**

**Accord de prêt pour un projet de développement zonal intégré dans la région du Bicol (avec annexes). Signé à Manille le 13 janvier 1978**

*Texte authentique : anglais.*

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

**PROJECT LOAN AGREEMENT<sup>1</sup> BETWEEN THE REPUBLIC OF  
THE PHILIPPINES AND THE UNITED STATES OF AMERICA  
FOR BICOL INTEGRATED AREA DEVELOPMENT II (BULA-  
MINALABAC LAND CONSOLIDATION)**

Dated: January 13, 1978

A.I.D. Loan Number 492-T-046

Project Number 492-310

TABLE OF CONTENTS

PROJECT LOAN AGREEMENT

Article 1. The Agreement	Section 6.5. Construction Services
Article 2. The Project	Section 6.6. Rice Processing Facilities
Section 2.1. Definition of Project	Section 6.7. Marketing Services
Section 2.2. Incremental Nature of Project	Section 6.8. Agricultural Credit
Article 3. Financing	Section 6.9. Elementary Education
Section 3.1. The Loan	Section 6.10. Low Cost Housing Study
Section 3.2. Borrower Resources for the Project	Section 6.11. Environment
Section 3.3. Project Assistance Completion Date	Article 7. Procurement Source
Article 4. Loan Terms	Section 7.1. Foreign Exchange Costs
Section 4.1. Interest	Section 7.2. Local Currency Costs
Section 4.2. Repayment	Article 8. Disbursements
Section 4.3. Application, Currency, and Place of Payment	Section 8.1. Disbursement for Foreign Exchange Costs
Section 4.4. Prepayment	Section 8.2. Disbursement for Local Currency Costs
Section 4.5. Renegotiation of Terms	Section 8.3. Other Forms of Disbursement
Section 4.6. Termination on Full Payment	Section 8.4. Rate of Exchange
Article 5. Conditions Precedent to Disbursement	Section 8.5. Date of Disbursement
Section 5.1. First Disbursement	Article 9. Miscellaneous
Section 5.2. Notification	Section 9.1. Communications
Section 5.3. Terminal Dates for Conditions Precedent	Section 9.2. Representatives
Article 6. Special Covenants	Section 9.3. Standard Provisions Annex
Section 6.1. Project Evaluation	<i>Annex I. Project Description</i>
Section 6.2. Issuance of Certificates of Land Transfer	<i>Description of Project</i>
Section 6.3. Fixing of Land Values	A. Major Physical Facilities to be Constructed or Installed
Section 6.4. Architectural and Engineering Services	Construction of Pumphouses and Installation of Pumps
	Canals and Canal Structures
	Drainage Canal System

<sup>1</sup> Came into force on 13 January 1978 by signature.

<p>Service Road and Farm Access Path Network</p> <p>The Multipurpose Building and San Jose Elementary Schoolhouse</p> <p>B. Homesite Development and Relocation</p> <p>C. Land Consolidation and Tenure Reform</p> <ol style="list-style-type: none"> <li>1. Qualification of Beneficiaries</li> <li>2. Disqualified Persons</li> <li>3. Use of Excess Area</li> <li>4. Basis of Maximum and Minimum Area Allocation</li> </ol> <p>D. Organizational Development and Training</p>	<p>E. Applied Agricultural Research</p> <p style="text-align: center;"><i>Attachments</i></p> <ol style="list-style-type: none"> <li>1. Map: Road Network for Bicol Integrated Area Development II (Bula-Minalabac)</li> <li>2. Table 1: Project Outputs and Magnitude of Outputs</li> <li>3. Table 2: Bicol Integrated Area Development II (Bula-Minalabac) Financial Plan, A.I.D. Loan</li> <li>4. Table 3: Bicol Integrated Area Development II (Bula-Minalabac) Financial Plan, GOP Local Currency Counterpart</li> </ol>
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### A.I.D. Project No. 492-310

PROJECT LOAN AGREEMENT dated January 13, 1978, between the REPUBLIC OF THE PHILIPPINES ("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) the construction and provision of pump irrigation, drainage and road access facilities and equipment within the 2,300 hectare Project area; and (b) related Project components of homesite development, land consolidation and tenure reform, organizational development, training and applied agricultural research. Annex I, attached, amplifies the above definition of the Project.

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 9.2 without formal amendment of this Agreement.

*Section 2.2. INCREMENTAL NATURE OF PROJECT.* (a) A.I.D.'s contribution to 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.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Borrower, may specify in Project Implementation Letters appropriate time periods for the utilization of funds loaned by A.I.D. under an individual increment of assistance.

### Article 3. FINANCING

*Section 3.1. THE LOAN.* To assist the Borrower to meet the costs of carrying out the Project, A.I.D., 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 Two Hundred Fifty Thousand United States ("U.S.") dollars (\$2,250,000.00) ("Loan"). The aggregate amount of disbursements 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, provided, however, that One Hundred Thousand U.S. Dollars (\$100,000.00) may be used only for support of improved village water systems and shall not be available for general Project funding purposes.

*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. \$2,194,000.00, including costs borne on an "in-kind" basis.

*Section 3.3. PROJECT ASSISTANCE COMPLETION DATE.* (a) The "Project Assistance Completion Date" (PACD), which is December 31, 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 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 semi-annually. 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 forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semi-annual installments of Principal and interest. The first installment of Principal will be payable nine and one-half (9½) 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 the Republic of the Philippines 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 9.1, 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 9.1, 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 subsection (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 Director General, National Economic and Development Authority, in the Republic of the Philippines.

*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 dis-

bursement will be made, the Borrower will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of counsel acceptable to A.I.D. that this 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 9.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;
- (c) A copy of the Philippine government order establishing the Department of Agrarian Reform (DAR) as the lead implementing agency, responsible to the Bicol River Basin Development Program Office (BRBDPO), the coordinating agency, for the effective and timely implementation of this Project;
- (d) A copy of the Philippine government order establishing a composite Project Management Office (PMO) under the supervision of the DAR regional office, with authorities and responsibilities to enable the PMO to effectively carry out assigned functions, including necessary delegations of authority from the Department of Agrarian Reform (DAR), the lead implementing agency, to the DAR Regional Director and the Project Manager to (1) enter into contracts; (2) make financial payments for work accomplished; and (3) hire any additional personnel required by the PMO;
- (e) A plan for the implementation of the Project prepared by the PMO, including a projection of funds available to finance the various elements of the Project;
- (f) A plan as called for in Section 6.1, for socioeconomic and construction evaluation of the Project, the former by BRBDPO contract, the latter involving periodic review of the Project by an evaluation team consisting of, *inter alia*, one representative of BRBDPO, NEDA, and A.I.D., and an undertaking by the Borrower that it will cause periodic recommendations of the Project Evaluation Team to be implemented in a timely and effective manner;
- (g) Written assurance from the BRBDPO that a farmer-controlled Irrigators Association will be formed for each separate irrigation system constructed, properly chartered, and that they will be given complete responsibility for managing, operating and maintaining the systems prior to the third full cropping season after their construction is completed and operational in each phase, including provisions for the collection of water fees and the repayment of construction costs, in accordance with government policy, and a plan for systematic operations and maintenance;
- (h) Notification that all money has been allotted to fund the first year of construction, contracting and all other first year Project activities as agreed in the implementation plan, including sufficient money to contract final architectural and engineering design and construction drawings as required for the Project and the Cash Disbursement Ceiling for the first quarter has been released; and
- (i) A copy of the appropriate water permit duly procured from, or endorsed by, the National Water Resources Council covering all diversions and uses of public water resources proposed in this Project, except that, if river and ground water permits must be procured separately, the river water permit

shall satisfy this condition precedent (the ground water permit shall be provided as part of a subsequent condition for Phases II and III as described in Annex I).

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

*Section 5.3. TERMINAL DATES FOR CONDITIONS PRECEDENT.* If all of the conditions specified in Section 5.1 have not been met within 120 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 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. ISSUANCE OF CERTIFICATES OF LAND TRANSFER.* The Borrower, through the DAR, will, within twelve months from the completion of construction in each of the five phases of the Project area, issue all Certificates of Land Transfer (CLT's) and secure written, registered leasehold contracts for all farmers eligible in that phase area under R. A. 3844, P. D. 27 and subsequent implementing instructions, it being understood that in most cases the CLT's will be for consolidated plots of land and will often differ in location and size from the farmers' original parcels, according to plan.

*Section 6.3. FIXING OF LAND VALUES.* The Borrower, through the DAR, will determine and fix within six months from the signing of the Loan Agreement, if it has not already done so, land values for all land in the Project area subject to transfer under the provisions of P. D. 27 and subsequent implementing instructions.

*Section 6.4. ARCHITECTURAL AND ENGINEERING SERVICES.* The PMO and DAR will submit, in form and substance satisfactory to A.I.D., a copy of a signed contract with a reputable architectural and engineering firm(s) to complete final design, construction drawings, specifications and contract documents for Phases II, III, IV and V of the Project and for any part of Phase I not completed by an "in-house" National Irrigation Administration (NIA)/DAR/BRBDP team, and to review the same for any part of Phase I completed by the "in-house" team. (See also Section C.3 of Annex II.)

*Section 6.5. CONSTRUCTION SERVICES.* The PMO and DAR will submit for A.I.D. approval final engineering designs, drawings, specifications and the proposed construction contract for each phase of the Project as they are completed, with those for Phase I to be completed in sufficient time for IFB procedures and contract negotiations to be accomplished by the 1978 Bicol dry season. (See also Section C.3 of Annex II.)

*Section 6.6. RICE PROCESSING FACILITIES.* The Borrower shall assure that the National Grains Authority (NGA) will implement current plans to construct and install a rice drying, milling and storage complex in the Municipality of Pili, Camarines Sur Province, so that it becomes operational with sufficient capacity to service the needs of the central portion of Camarines Sur Province, which includes the Bula-Minalabac Land Consolidation Project Area, by 1978, and that sufficient funds are released on a timely basis to NGA of Camarines Sur Province for this purpose.

*Section 6.7. MARKETING SERVICES.* The Borrower shall assure that the Department of Local Government and Community Development (DLGCD) proceeds with current plans to establish branches of the Camarines Sur Area Marketing Cooperatives to service the entire IAD-II Land Consolidation Project area by no later than 1981.

*Section 6.8. AGRICULTURAL CREDIT.* The Borrower shall assure that sufficient agricultural credit funds are made available to Project area farmers through existing, revised, or successor programs to enable them to purchase modern agricultural inputs, such as new seed varieties, fertilizer and insecticides, as are required to cultivate two crops of high-yield rice annually.

*Section 6.9. ELEMENTARY EDUCATION.* The Borrower shall assure that the Department of Education and Culture (DEC) will equip and staff the additional elementary grade classrooms to be constructed in Barangay San Jose and will continue to staff elementary classrooms in each of the other six barangays of the Project area, as required by the school age population, and that sufficient funds will be released to the DEC provincial office in Camarines Sur on a timely basis for that purpose.

*Section 6.10. LOW COST HOUSING STUDY.* BRBDP will, by the end of 1978, conduct a study, or contract to have one conducted, to determine the suitability of low-cost single-family rural house prototypes for the Project area and for similar rural areas of the Bicol River Basin and to recommend any administrative or institutional changes in existing mortgage loan programs that could facilitate home improvements or reconstruction by rural residents, when their average annual household income rises to a level sufficient to finance it.

*Section 6.11. ENVIRONMENT.* The Borrower, in consultation with A.I.D., agrees to review the findings of the environmental assessment in the post-authorization design and implementation stages of the Project for appropriate application therein.

#### *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 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 Philippines (“Local Currency Costs”). To the extent provided for under this Agreement, “Local Currency Costs” may also include the provision of local currency resources required for the Project.

#### 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 from local currency already owned by the U.S. Government; 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 the Republic of the Philippines 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 the Republic of the Philippines at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the Republic of the Philippines.

*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. 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:

National Economic and Development Authority  
P.O. Box 1116  
Manila, Philippines

Alternate address for telegrams:  
NEDAPHIL

To A.I.D.:

Mail address:

United States Agency for International Development  
c/o The American Embassy  
Manila, Philippines

Alternate address for telegrams:  
USAID/AMEMB Manila

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

*Section 9.2. REPRESENTATIVES.* For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the office of the Director General, National Economic and Development Authority,

and A.I.D. will be represented by the individual holding or acting in the office of the Director, United States A.I.D. Mission to the Philippines, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power 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 9.3. STANDARD PROVISIONS ANNEX.* A "Project Loan Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

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.

United States of America:

[Signed]

By: PETER M. CODY

Title: Director, U.S. Agency for International Development

Republic of the Philippines:

[Signed]

By: GERARDO P. SICAT

Title: Secretary of Economic Planning (Director General), National Economic and Development Authority

*Concur:*

[Signed]

By: ALFREDO L. JUINIO

Title: Secretary, Department of Public Works, Transportation and Communications and Cabinet Coordinator, Bicol River Basin Development Program

[Signed]

By: CONRADO F. ESTRELLA

Title: Secretary, Department of Agrarian Reform

## ANNEX I

### DESCRIPTION OF PROJECT

This Project is designed to improve the socio-economic situation and the quality of life of the rural poor residing in the Bula-Minalabac Area of the Bicol River Basin, an area characterized by severe poverty, land tenure insecurity, low agricultural productivity, poor irrigation and drainage facilities, and physical isolation.

The activities to be funded by this Project include (1) the construction and installation of major physical infrastructure facilities; (2) new homesite development and the relocation of farm houses and households to planned community homesites from scattered

field locations; (3) land consolidation and tenure reform; (4) a series of interrelated organizational development and training activities; and (5) applied agricultural research specific to the Project Area.

A. *Major Physical Facilities to Be Constructed or Installed*

These consist of diversion works (pumps and pumphouses), irrigation canals, drainage canals, service road and farm access path networks, multipurpose community buildings and an elementary school.

*Construction of Pumphouses and Installation of Pumps.* The irrigation layout is designed as a rotational irrigation block system, with the blocks ranging from twenty to eighty hectares each, using pumps to irrigate the area drawing water from the Bicol River where possible.

The construction portion of the Project is divided into five geographical phases. (See Map.)<sup>1</sup> Each phase is a separate irrigation system and will have its own set of electrically-driven pumps to draw irrigation water from the Bicol River or from underground sources, depending upon the location of the irrigable area. Each pump station will be provided with a pump house complete with an overhead crane and other facilities for servicing the pumps.

Phases II and III, located further from the Bicol River, are designed to draw water from underground sources, pending the results of a professional groundwater survey and analysis to be completed in early 1978.

The implementation plan calls for a 4-year construction period, with Phase I construction scheduled to start in early 1978 and taking two years for completion. Phase II will be completed in 1979; Phase III in two years, 1979-1980; Phase IV in two years, 1980-1981; and Phase V in 1980.\*

Phase I, with an estimated irrigable area of 567 hectares, will be irrigated by a set of two operating pumps, and one standby pump, to draw water from the Bicol River. The two operating pumps will be designed to deliver a maximum of 0.85 cubic meters per second (cms) of irrigation water, enough to supply the water needs of each rotational block including expected losses.

Phase II, located farther away from the Bicol River, will utilize underground water sources. Two pumping plants will be constructed, each with one deep-well pump capable of delivering irrigation water to rotational blocks, having an aggregate area of 184 hectares.

Similar to Phase II, the 286 hectares of Phase III will be irrigated by underground water sources. The topography of the area calls for the construction of an estimated five deep-well pumps. Each pump will serve one rotational block.

Phase IV, close to the Bicol River, will use surface water from the Bicol to irrigate 810 hectares of irrigable land. Three pumps are proposed, one of which is a standby, to divert water for 16 rotational units. This phase has some areas at elevation higher than the proposed main canal. So, a set of up to three centrifugal booster pumps, one of which is a standby, will be installed to irrigate some 265 ha.

Phase V, with an estimated 215 ha, will be irrigated by three mixed-flow pumps, one of which is a standby, that will also draw water from the Bicol River. The set will supply up to 0.322 cms of irrigation water for the six rotational units in this phase.

*Canals and Canal Structures.* The Project Area requires an estimated 154 kilometers of irrigation canals: 23 km. of main canals, 26 km. of laterals and 105 km. of on-farm ditches or sub-laterals.

From each pumpsite stilling pool the water will run through the main canals, lined to minimize percolation water losses. Lateral and sub-lateral canals will be constructed of

\* See Table I for the projected annual unit completion rate of physical construction activities.

<sup>1</sup> See p. 411 of this volume.

compacted earth. Along the main canal are conveyance and regulating structures such as road crossings, headgates, diversion boxes, turnouts, in various combinations, following standard NIA designs. The water will then be diverted from the main canal to the laterals by means of gated structures. Parshall flumes or other suitable devices will measure the volume of water diverted to each lateral. The water from the laterals will be distributed to the rotational units through gated outlets with weirs. In no case will a rotational unit be irrigated from the main canal; the water will first pass through a lateral for better water management.

*Drainage Canal System.* The Bicol River Basin is subject to tropical storms, and the Project Area has a high probability of being partially flooded during the annual typhoon season. Good drainage to mitigate the level and duration of flooding is necessary to increase rice production. The drainage system will be designed to drain excess water from the fields and redirect it to areas where irrigation water is needed. It will also be designed to take advantage of existing waterways and the natural slope of the land to minimize construction costs.

Phase I will be drained by constructing a new drainage canal to convey water northerly to the Anayan River and thence to the Bicol River, and by constructing another canal along the southern boundary to convey water westerly to the Bicol. Both canals will help drain a large water-logged, frequently flooded area extending to the south beyond the Project Area, but protruding into the area between Phases I and III.

Phase II will be drained by Mataoroc Creek and Hamoraon Creek to the Bicol. Phase III will be drained by the existing Macatucas Creek to the Anayan River and thence to the Bicol. Phase IV will be drained by Hamoraon Creek to the Bicol on the north and by Anayan River to the Bicol in the south. Phase V will be drained by Hamoraon Creek to the Bicol on the south. There will be an estimated total of 92 kilometers of new drainage canal constructed, 1.6 km. main drainage, 38.1 km. secondary drainage and 52.5 km. on-farm drainage.

*Service Road and Farm Access Path Network.* Coincident with the construction of irrigation and drainage canals, the Project will construct an estimated 33 kilometers of service roads and 42 kilometers of farm access paths. Service roads will parallel the main irrigation canals and laterals and will connect with the 20 kilometers of larger secondary and feeder roads, to be constructed in the area by the Department of Public Highways under the A.I.D.-supported Bicol Secondary and Feeder Roads Project. Service roads will be 4 meters wide with gravel surfacing 3 meters wide and will include wider parking, passing and turn-around zones (30 meters long and 6 meters wide with gravel surfacing 5 meter wide) spaced at every intersection with a farm access path, 300 meters apart. They will be built up to a surface level at least 0.6 meters above the surface of adjacent fields.

The farm access paths will link each farmland to service or feeder roads and will be 2 meters wide and surfaced with gravel to provide all-weather access. They will be constructed longitudinally between each compact farm (24-hectare block) and will be provided with concrete crossings to permit passage from path to field over drainage and irrigation canals. (See Map for the approximate design of the road network.)

*The Multipurpose Building and San Jose Elementary Schoolhouse.* A three-room multipurpose building will be constructed in each of the seven Project Area barrios before the construction of each phase is begun. They will be first used as field administrative and work offices by the Project Management Office for final survey and engineering design activities, and for organizational and training activities during, and for one year following, the period of construction. One year after construction is completed in each phase the related building or buildings will be turned over to the Barangay Councils for their use as multipurpose Barangay Halls, one room will be designated as the Management Office of the local Irrigators' Association and the other rooms will be available as meeting and

social halls and for use by visiting extension workers, health, nutrition and family planning clinics, or for other related social services.

The proposed buildings are to follow the standard Bagong Lipunan (New Society) schoolhouse model designed specifically for typhoon-prone areas. They will be reinforced concrete structures with concrete hollow-block walls, and will be made available as a safe refuge to barangay residents during severe windstorms.

An eight building of identical design will be constructed in Barangay San Jose to serve as an elementary school. This is the only one of the seven Project Area barangays without its own elementary school. Money is included in "Homesite Development" to relocate the schools in Barangays Sagrada and San Agustin.

### B. *Homesite Development and Relocation*

The Project design includes the relocation of farm-beneficiaries to a developed community. Road networks and drainage facilities will be provided in the new homesite areas, and the homelots will provide about 500-650 square meters of land per household. The community site will provide areas for a school site, a chapel, a park and other facilities that may be desired. Homelots will be relocated strategically in such a way that the beneficiaries' farmlots will, on average, be only about one kilometer away. (See Map for the approximate locations of the 7 homesite areas.)

Relocation is voluntary, unless the house occupies necessary road or canal right-of-way, and if a farmer is reluctant to move, no form of coercion will be used. His farmlot will in most cases simply be plotted to include his house, and his cultivable hectareage will be less by the size of his homelot. He will still be given title to another homelot in the new homesite area. Every household that relocates will be granted a flat ₱300.00 (\$40.00) to cover the minor expenses for repairs and replacement parts and materials such a house movement usually requires. No vouchers for expenses actually incurred will be required to justify receipt of this ₱300.00.

In addition to the relocation allowance, ₱1,000.00 (\$133.00) per household will be allocated to purchase small, hand-operated household water pumps (₱600.00 or \$80.00 each, including part of the labor requirements of driving a new shallow well) and the materials to construct a water-sealed pit privy (₱400.00 or \$53.00 each, all labor to be provided by the recipient). This cost is to be added to the irrigation construction loan and amortized by the recipients over a 40-year period. It is the minimum necessary to provide a sanitary community environment. The location of the shallow wells will be carefully plotted with respect to the location of the latrines to minimize possible contamination.

An A.I.D. loan contribution of not to exceed \$100,000.00 is included in the Loan to support further study of the household water requirements of the Project Area barangays and, if both the Borrower and A.I.D. agree, to support the design and construction of improved central water system facilities in those barangays. This amount will be in addition to and combined with the ₱728,000.00 (\$97,000.00, including cost escalation and contingencies) originally planned for the purchase of hand-operated household water pumps as part of the Borrower's contribution in the five barangays of Phases I, IV and V. In those cases where agreement is reached between A.I.D. and the Borrower that central water systems are more desirable than the planned hand-pumps, such systems will be substituted for the hand-pumps and funds substituted accordingly. If any part of the \$100,000.00 A.I.D. contribution for improved barangay water facilities is not required for the prescribed purposes over and above the planned Borrower contribution, it will be deobligated and not used for general Project funding.

### C. *Land Consolidation and Tenure Reform*

Agricultural land consolidation entails planned physical restructuring of all farm lots which are fragmented, narrow, small, and/or irregular in shape. The Project will combine and re-shape the separate farmlot holdings of each farm-family beneficiary to form one contiguous holding within one or two kilometers from the operator's residence and thus

facilitate farm operations and management. Unnecessary pathways, irrigation and drainage canals and/or rights-of-way shall be eliminated. Paddies, dikes, irrigation canals, and farm roads are designed to meet the requirement of intensive rice cultivation, in order to optimize the use of arable land, irrigation water, of available man-hours, and eventually of farm machinery and to facilitate joint operations.

In this Project consolidated farmlots are also to be organized into compact farms, discussed below, averaging 17 hectares each, to facilitate cooperative farming operations.

The Project Area is covered by Presidential Decree No. 27 ordering land tenure reform on rice and corn lands. The Operation Land Transfer and Leasehold System has been accelerated and currently there are 765 farmer-tenants who are already recipients of Certificates of Award (1959 program) or of Certificates of Land Transfer (CLT's—current program).

The completion of the land transfer and leasehold system to cover all eligible tenants in the Project Area will be accelerated. All land values will have already been assessed and will be based on pre-project conditions in the 5 phases of the Project, so that the benefits of the Project will flow to tenant-beneficiaries. Specialists will be organized by the Department of Agrarian Reform (DAR) and assigned to the Project Management Office to serve as the "Tenurial Development Team". The Project plans to consolidate approximately 2,668 farmlots into 1,230\* and to have them redistributed to 1,230 farmers by the end of 1981. Some 1,200 tenants and squatters will have been awarded CLT's for consolidated farms by that time. The eighteen Project Area tenants on landholdings below 7 hectares (the legal retention limit) have already negotiated and registered written leasehold contracts fixing rents at 25% of an average crop. The three-year average crop, and therefore the amount of rent, has already been determined and will not be subject to change as yields increase. The benefits of this Project are thus legally locked into the tenants' share of the crop and will not accrue to landlords.

The Land Consolidation Promotions Committee, already organized in Phase I and to be expanded to include local leaders of the other Phases, will assist the Tenurial Development Team in assessing land values, determining existing tillage rights and settling any controversies or disputes that might arise among farmer-beneficiaries, and in the equitable reallocation of land.

The following guidelines have been developed with the assistance of the Taiwanese land consolidation consultants:

1. *Qualification of Beneficiaries.* Since most of the Project Area is covered by the Land Reform Program, the re-allocation of land will utilize the masterlist of registered farmers of the Department of Agrarian Reform. Consideration will be given to the existing rules and regulations of that department wherein those beneficiaries or awardees who transferred their rights and interests over land already assigned to them (in Lirag Estate) without the consent of the department (exceptions are granted for widows, retirees, etc.) are disqualified to repurchase any lot under the administration of the DAR. In cases, however, where the Project will create social problems, priority will be given to the actual tillers of the land, as decreed in P.D. 27.
2. *Disqualified Persons.* Beneficiaries or awardees who transferred their rights and/or interests over the land without official consent will be disqualified. Furthermore, those who are not personally tilling the land and those who are physically incapable of tilling the land are disqualified.
3. *Use of Excess Area.* The actual tillage rights existing before land consolidation shall be the basis of calculation and re-allocation of farm lots. After Project completion any excess area will be allocated to qualified squatters in the Project Area.

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\* Due to the additional hectareage (195 ha.) to be brought under cultivation under this Project it is expected that about 23 farmlots will be demarcated in excess of the 1,230 to be distributed to presently qualified Project area farmers. These lots will be farmed out on government leases until qualified tillers can claim them.

4. *Basis of Maximum and Minimum Area Allocation.* To attain a more equitable wealth distribution, there will be a limit to the maximum area a family may own and cultivate. Presidential Decree No. 27 provides that no more than 3 hectares of irrigated riceland may be awarded to each farmer and his spouse, and no more shall be awarded than will bring their total owned and awarded land area up to the 3-hectare limit, including land previously owned or awarded elsewhere. In dividing up large estates, no less than one hectare will be awarded any one former tenant or squatter family in this Project Area, since that is considered a minimum viable farm size.

#### D. *Organizational Development and Training*

Under the Project, 74 existing compact farms will be reorganized and 49 new ones organized as the basic production units, each one composed of an average of 17 hectares of contiguous, irrigated land tilled by about 10 farmers. Compact farms will serve as:

- Channels for the introduction and dissemination of recommended farm technology;
- Units to systematize and consolidate farm operations through cooperative and reciprocal group action;
- An institutional mechanism to facilitate improvement of on-farm water management practices;
- Basic production units to purchase and operate small scale farm machinery as and when needed; and
- Liability and guarantee groups for the acquisition of production and marketing credit.

Compact farms are being organized under the government's cooperative program, i.e., under the Barrio Association (Samahang Nasyon), which themselves are to be federated and organized into a larger Area Marketing Cooperative.

An Irrigators' Association (IA) will be organized in each phase of the Project by the Project Management Office water management staff during the initial operational year of the irrigation system. IA members and staff at all levels will be trained and prepared to take over each system after the first full year of its operation in each Phase. The compact farms will be grouped by rotational irrigation blocks.

Each rotational block will be organized as an irrigation district. There will be 45 rotational blocks, but since some of the smaller ones in Phase III will be grouped together, there will be approximately 42 District Irrigators' Associations (DIA's). All officers of the member compact farm units will become members of the DIA board. The compact farm coordinators will elect their district chairman and vice chairman.

An Irrigators' Association will be formed for each Phase of the Project to take over, operate and maintain each irrigation system. This central body will be composed of all the members of the District Executive Boards. All district chairmen will automatically become members of the Board of Directors of their respective Irrigation Associations, and they will elect their President and Vice President from among themselves. A trained water-master will be selected and hired by the Board of Directors. A grievance officer will be chosen from among the members of the Board. Various committees for production, education and training, water management, finances and development will be organized. The association will also have a full-time, bonded secretary/treasurer to be assisted by a hired bookkeeper. The association charter will be duly registered with the Securities and Exchange Commission.

The Irrigators' Associations will collect water fees from their members, either in kind or in cash equivalent.

Once the five Irrigators' Associations are organized and activated, it is expected they would federate into a Project-wide organization for certain purposes. One such purpose would be the hiring and cost-sharing of a trained electrical mechanic to be on call to service



the pumps throughout the entire Project system (a resident could be trained for the job). The five IA's will be encouraged to consider this possibility.

In addition to Compact Farms and Irrigation Associations, the Project Management Office will organize Homemakers' Clubs and Rural Youth Clubs to facilitate project-related activities, to help develop leadership and the cooperative spirit, and also to serve as social focal points.

The training components of the Project are planned around the organizational efforts described above. Training in leadership, managerial skills, principles of organization and cooperative activities, in the operational and long-run plans and possibilities of the Project, in modern agricultural and water management technology, the proper use of credit and other relevant subjects will be provided by the Project Management Office (PMO) and offered to all Project Area farmers, with special courses for barangay, compact farm, and irrigation association leaders, Land Consolidation Promotion Committee members, and government technicians responsible for implementing the Project. Special training sessions will be conducted for watermasters and ditchtenders. Farmers, their wives and older children will also receive training in community leadership, health, sanitation, nutrition, family planning and backyard projects (the latter to raise vegetable and fruit gardens, poultry and livestock as part of the nutrition program). Training will normally take place in the barangay multi-purpose buildings.

In addition to classroom training courses, agricultural extension agents will work with farmers in the field, will conduct demonstration plots using appropriate packages of technology, and will introduce the highly labor-intensive "Japanese Method" of rice culture. The latter is being successfully applied by a farmer in Bula Municipality, near the Project Area, who reports an annual yield of 700 cavans (35 metric tons) of rice palay per hectare—compared with the current average annual yield of around 46 to 57 cavans (2.3 to 2.85 M.T.). Extension agents and Project Area farmers will also benefit from On-Farm Water Management activities already underway.

Seminars on nutrition and health will be conducted by the PMO to create an awareness and transmit knowledge of proper food preparation and precautionary measures for better health. The family planning sessions shall be informational and motivational in nature. They will orient eligible married couples on the importance of family planning, its significance to their families and to the community as a whole. Classes, seminars and other training programs on health, nutrition and family planning will be conducted jointly for the compact farm members, their wives and rural youth.

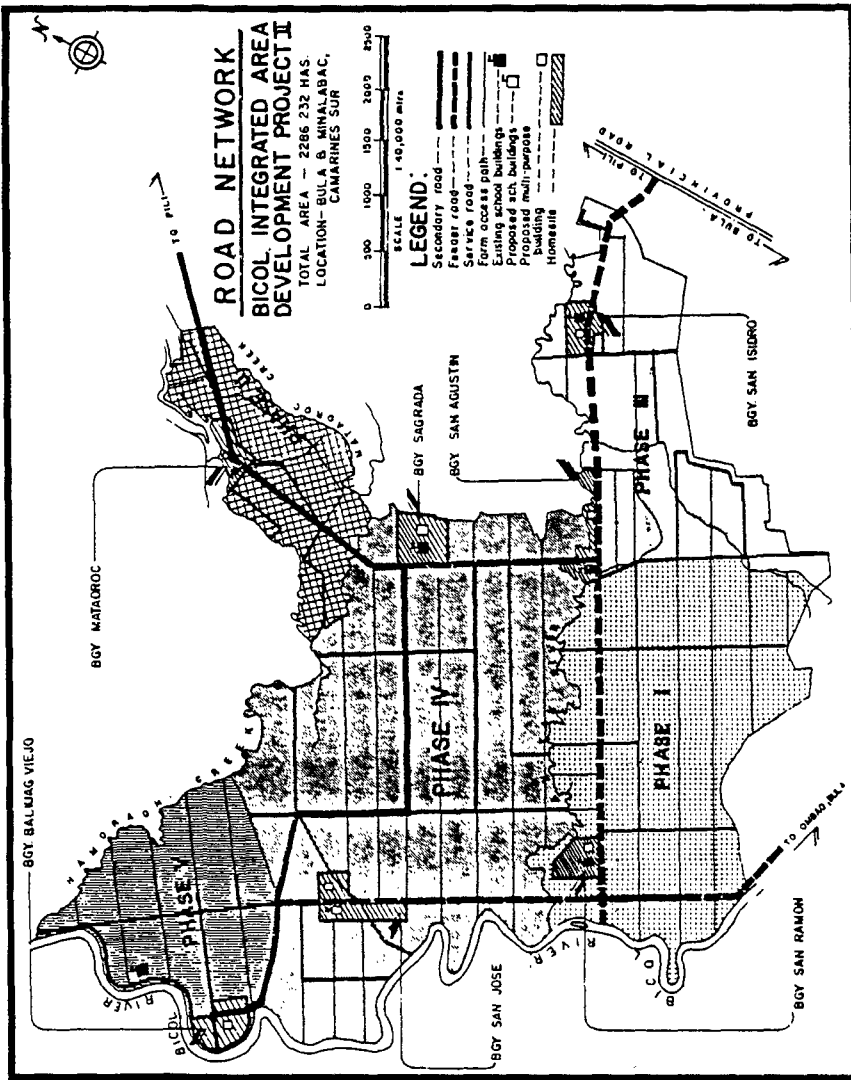
For the development of youth, a training program will improve their skills and leadership capability. The youth will also be encouraged to put up model community projects such as backyard poultry and livestock raising and vegetable gardening.

None of the proposed training programs are so new they will require extensive prior preparation of training materials. They are all parts of on-going nationwide programs of the different line agencies involved, but in which the Project Area, due to its relative inaccessibility, has been mostly neglected. The goal of this Project is to provide an initial period of rather intensive introductory training in all of the areas described above and then to let the regular, on-going extension and rural development programs continue the effort in the future.

#### *E. Applied Agricultural Research*

The Project will fund an applied research program within the Project Area conducted by the Bureau of Plant Industries (BPI) designed to determine the optimum package of high-yield seed varieties, fertilizer, pesticides, and other inputs specifically for the soil, climate and water conditions of the area upon completion of planned irrigation and drainage facilities. The research project itself will serve as a demonstration farm for Project beneficiaries and will provide valuable information for use by the extension agents in their Project-related training and extension programs. The Project calls for a five-year research

effort, two crops a year, perhaps one year in each phase of the Project upon completion of an operational portion of the irrigation system in each phase; but this effort can be reduced if the PMO and BPI, with USAID and BRBDPO concurrence, decide it is more than necessary to determine optimum packages of rice technology for each phase of the project area.



Treaty No. I-19857 (Vol. 1229)

MAP NO. 3515 x

Table 1

## PROJECT OUTPUTS AND MAGNITUDE OF OUTPUTS

(Pre-project estimates)<sup>3</sup>

	Year: 1978	1979	1980	1981	1982	Total
<i>Physical Facilities</i>						
Pumphouses built .....	1	5	4	1	—	11
Pumps installed .....	3	5	8	3	—	19
Irrigation canals (km) .....	24	38	59	33	—	154
Drainage canals (km) .....	25	23	44	—	—	92
Service roads and paths (km) .....	10	22	29	15	—	76
(Hectarage irrigated) .....	(283)	(611)	(763)	(405)	—	(2,062)
Multipurpose buildings .....	4	3	—	—	—	7
Elementary schoolhouse .....	—	1	—	—	—	1
<i>Homesite Development</i>						
Homesites completed .....	2	2	3	—	—	7
Homelots developed and distributed .....	321	220	469	—	—	1,010
Households relocated <sup>1</sup> .....	188	272	367	183	—	1,010
Hand pumps installed .....	188	380	479	183	—	1,230
Water-scaled pit privies constructed or approved .....	188	380	479	183	—	1,230
<i>Land Consolidation and Tenure Reform</i>						
Farmlots consolidated .....	908	403	349	1,008	—	2,668
Consolidated farms demarcated .....	425	237	145	446	—	1,253
New CLT's, leases and titles issued (or old ones confirmed) .....	321	328	145	436	—	1,230
<i>Organizational Development and Training</i>						
<i>a. Organizations formed</i>						
Compact farms .....	32	33	34	24	—	123
District Irrigators' Assoc. ....	12	11	11	8	—	42
Irrigators' associations (IA) .....	—	3	1	1	—	5
Homemakers' clubs .....	5	9	6	7	5	32
Youth clubs .....	9	11	15	23	9	65
<i>b. People trained</i>						
Project Implementors .....	34	—	—	—	—	34
Promotion committee members .....	18	—	—	—	—	18
Barangay leaders .....	18	19	33	—	—	70
Compact farm members <sup>2</sup> .....	—	161	375	476	218	1,230
Compact farm leaders .....	96	99	102	72	—	369
District IA officers <sup>2</sup> .....	—	24	22	22	16	84
IA Board members <sup>2</sup> .....	—	12	11	11	8	42
IA watermasters <sup>2</sup> .....	—	—	2	2	1	5
Ditchtenders <sup>2</sup> .....	—	16	38	40	29	123
Farmers (in health, etc.) .....	205	305	259	265	196	1,230
Homemakers .....	205	305	259	265	196	1,230
Youth .....	306	414	540	840	366	2,460
<i>Applied Agricultural Research</i>						
Applied Agricultural Crops .....	1	2	2	2	3	10

<sup>1</sup> 82% of 1,230 total families expected to relocate.<sup>2</sup> Completion of both classroom and on-the-job training, to include intensive extension assistance for up to one year.<sup>3</sup> Includes all five phases of the project.

Table 2  
BICOL IAD II (BULA-MINALABAC) FINANCIAL PLAN, AID LOAN  
(\$1,000)

	1978		1979		1980	1981	Life of Project		
	FX	LC	FX	LC	LC	LC	FX	LC	Total
I. Physical construction .....		235		257	646	439		1,577	1,577
II. Imported equipment .....	128		165				293		293
III. Homesite development: barangay water facilities <sup>1</sup> .....				33	67			100	100
<i>Sub-total</i>	128	235	165	290	713	439	293	1,677	1,970
IV. 15% Contingency Fund <sup>2</sup> .....	19	35	25	38	97	66	44	236	280
TOTAL <sup>3</sup>	147	270	190	328	810	505	337	1,913	2,250

NOTE: Figures presented include compounded 7% annual cost escalation factor for local currency costs, 15% for imported equipment costs. 1977 base year. AID loan funds were allocated to estimated peso project costs at an exchange rate of ₱7.5/\$1 throughout. Figures represent estimated accrued expenditures by calendar year, and actual USAID reimbursements will normally lag by one or two quarters. The latter schedule will be estimated in the official implementation plan. Costs for Phases II and III are excluded.

<sup>1</sup> This AID contribution has been designated solely for barangay water facilities or systems providing satisfactory household water supplies for project area residents. Any portion of this \$100,000 not used for this purpose is to be deobligated.

<sup>2</sup> The contingency factor was not applied to line III.

<sup>3</sup> The total amounts may not be exceeded, but line item amounts may be adjusted by up to 15% with the joint agreement of both the GOP Project Manager and the USAID Project Officer. Adjustments of greater magnitude will require a separate implementation letter approved by USAID and GOP.

Table 3  
BICOL IAD II (BULA-MINALABAC) FINANCIAL PLAN, GOP LOCAL CURRENCY COUNTERPART  
(₱1,000)

	1976-77 <sup>1</sup>	1978	1979	1980	1981	1982	Total life of Project
I. Physical construction ..	2,784	986	1,461	2,266	1,755	318	9,570
II. Homesite development .....	170	338	613	839	312		2,272
III. Land consolidation and tenure reform .....	14	37	35	38	41		165
IV. Organizational development and training ...		196	187	209	241	38	871
V. Applied agriculture research .....			23	25	26		74
VI. Project operations and maintenance .....	369	180	167	190	212	241	1,359
<i>Sub-total</i>	3,337	1,737	2,486	3,567	2,587	597	14,311
VII. 15% Contingency fund .....	501	261	373	535	388	90	2,147 <sup>3</sup>
TOTAL <sup>2</sup>	3,838	1,998	2,859	4,102	2,975	687	16,458 <sup>3</sup>

NOTE: Figures presented include compounded 7% annual cost escalation factor. 1977 base year. Costs for Phases II and III are excluded.

<sup>1</sup> This column represents value of work already completed or budgeted (FY 77) for pilot project.

<sup>2</sup> So long as total amounts are not exceeded, line item amounts may be adjusted by up to 15% with the joint agreement of both the GOP Project Manager and the USAID Project Officer. Adjustments of greater magnitude or of total amounts will require a separate implementation letter approved by USAID and the GOP.

<sup>3</sup> Totals do not add across due to rounding error.

## ANNEX II

## PROJECT LOAN STANDARD PROVISIONS ANNEX

*Definitions*

As used in this Annex, the "Agreement" refers to the Project Loan 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 Borrower 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 I.

*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 Borrower 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 Loan 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 Loan, 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 Loan 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 Borrower.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Loan, and any property or transactions relating to such contracts and (2) any commodity procurement transaction financed under the Loan are not exempt from identifiable taxes, tariffs, duties, or other levies imposed under laws in effect in the territory of the Borrower, the Borrower 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 Loan.

*Section B.5. REPORTS, RECORDS, INSPECTIONS, AUDIT.* The Borrower 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 Loan. 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 Loan.

*Section B.6. COMPLETENESS OF INFORMATION.* The Borrower 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 Loan, are accurate and complete, and include all facts and circumstances that might materially affect the Project and discharge of responsibilities under this Agreement; and
- (b) That it will inform A.I.D. in 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.* Borrower affirms that no payments have been or will be received by any official of the Borrower in connection with the procurement of goods or services financed under the Loan except fees, taxes, or similar payments legally established in the country of the Borrower.

*Section B.8. INFORMATION AND MARKING.* The Borrower will give appropriate publicity to the Loan 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 Borrower will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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

*Section C.2. ELIGIBILITY DATE.* No goods or services may be financed under the Loan 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 Borrower 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 Loan, 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; and
  - (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 Loan, 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 Loan 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 Loan 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 Borrower for the Project but not financed under the Loan, 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 Borrower for the Project but not financed under the Loan 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 Loan. 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 Loan, the Borrower 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 Borrower may not be financed under the Loan 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;
- (2) On an ocean vessel which A.I.D., by written notice to the Borrower, 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 Loan, 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 Borrower, 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 shipments financed by A.I.D. and transported to the territory of the Borrower 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 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 Borrower 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 Borrower (or government of Borrower), 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 Borrower 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 Borrower will insure, or cause to be insured, goods financed under the Loan 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 Borrower 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 Borrower 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.8. U.S. GOVERNMENT-OWNED EXCESS PROPERTY.* The Borrower agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Loan, should be utilized. Funds under the Loan may be used to finance the costs of obtaining such property for the Project.

#### *Article D. TERMINATION; REMEDIES*

*Section D.1. CANCELLATION BY BORROWER.* The Borrower may, by giving A.I.D. 30 days' written notice, cancel any part of the Loan 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 Borrower 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 Borrower 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 Borrower 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 then 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 Loan will be attained or that the Borrower 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 Borrower 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 Borrower 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 Borrower;
- (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 Loan be transferred to A.I.D. if the goods are from a source outside Borrower's country, are in a deliverable state and have not been off-loaded in ports of entry of Borrower's country. 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 Loan 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 Borrower 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. The right to require such a refund of a disbursement will continue, notwithstanding any other provisions of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

(b) (1) Any refund under the preceding subsection, or

(2) Any refund to A.I.D. from a contractor, supplier, bank, or other third party with respect to goods or services financed under the Loan, 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, 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.

*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.