ATTACHMENT A
AMPLIFIED DESCRIPTION

1. Purpose

This annex provides an amplified description of the new USAID/Indonesia Strategic Objective: "Foundations Set for Rapid, Sustainable, and Equitable Economic Growth," the type and scope of activities to be undertaken for this program, and the results to be achieved with the funds obligated under the Strategic Objective Agreement (referred to as the "Agreement"). Nothing in this Annex shall be construed as amending any of the definitions or terms of the Agreement.

2. Background

The United States Agency for International Development (USAID) Indonesia is redefining its overall country program strategy in Indonesia for the years 2000-2004 to support the transition to **A Prospering and Democratic Indonesia**. One of USAID's new strategic objectives is "To set Foundations for Rapid, Sustainable, and Equitable Economic Growth ". This Strategic Objectives will provide a mechanism for ensuring that activities will work together toward a common purpose, and that all activities supported by USAID contribute to specified objectives. Results necessary for achieving objectives are identified, and activities necessary for results are grouped into Intermediate Results.

The program described herein provides a comprehensive articulation of the synergistic relationships among all activities supported under USAID's new strategic objective of Foundations Set for Rapid, Sustainable, and Equitable Economic Growth. This Annex describes the new strategic objective, the type and scope of activities to be undertaken, and the results to be achieved with the funds under this Agreement.

Section 2.1. Problem: Recovering Indonesia from its Economic Crisis

Indonesia is facing the dual challenge of recovering from its worse economic crisis in 35 years and achieving a development path that promotes wide prosperity and democracy. After decades of averaging 6.9 percent per annum in economic growth and substantially reducing poverty, Indonesia experienced an acute economic crisis starting in 1997. Progress in growth and poverty reduction were not sustainable because they occurred in an environment where the rules and institutions of the game were rigged in favor of a selected group of individuals who used excessive power to extract huge rents. After a 14 percent decline, Indonesia's economy has stabilized – i.e. the economic situation is no longer getting worse.

A historical political transition has taken place in Indonesia. It started with the fall of the Suharto Government in May 1998, proceeded through fair and free parliamentary elections in June 1999, and cumulated in the election of Abdurrahman Wahid as President in October 1999 by the People's Consultative Assembly (MPR). The MPR has issued the State Policy Guidelines. Based on these guidelines, the Government of the Republic of Indonesia (GOI) has adopted a comprehensive economic reform program that identifies operational strategies for maintaining macroeconomic stability, restructuring key economic sectors, rebuilding economic institutions and improving natural resource management in the broad context of decentralization. Elements of this economic reform program were incorporated in the Letter of Intent which the GOI signed with the IMF in January 2000. Friends of Indonesia at the Consultative Group Indonesia Meeting held in Jakarta in February 2000 committed to provide up to $ 4.7 billion to support this reform and restructuring program. The U.S. Government has expressed its strong support for the new government and its reform agenda.

Section 2.2 Current Projects and Activities

In 1997 USAID have transformed ARSSP (Agriculture Rural Sector Support Program) to a Strategic Objective Agreement for Economic Growth as a vehicle to support a wide area of policy-based economic reforms. Work currently underway under ARSSP SOAg (497-0357) including the AERA (Accelerating Economic Recovery in Asia) component, will be carried over to the new strategy. This includes, for example, Partnership for Economic Growth (PEG) Technical Assistance and Grants, a series of micro and small business research and development activities, and technical assistance activities for the Government encompassing overall macroeconomy management and regulatory reform.

3. Program Description

Section 3.1 New Strategic Objective

Having identified a credible comprehensive economic reform program, the challenge facing the GOI is to implement this complex program amidst weak economic institutions. Under the "foundations set for rapid, sustainable, and equitable economic growth" SO, USAID will work closely with donors to assist GOI to implement its economic reform program. Activities undertaken will achieve this SO through the following intermediate results:

- Sound Economic Policy and Institutions;
- A Conducive Legal and Regulatory Framework;
- Open Access to Economic Opportunity;
- Knowledgeable Public Participation in Economic Decision Making.

A sound foundation to ensure rapid and sustainable economic growth that will generate jobs and widely shared benefits in Indonesia is defined as having the following characteristics:

a) sound economic policy administered by strong institutions of the GOI Executive Branch;
b) investment-friendly legal and regulatory framework - including sound corporate governance and impartial and expeditious resolution of property rights and contract disputes -- enforced by Independent Regulatory Commissions (whose members are selected by Parliament);

c) open access to the opportunities created by a growing economy to all Indonesians, especially the poor, women, and those in isolated areas, to foster an equitable distribution of the benefits; and
d) knowledgeable participation by the intended beneficiaries, legislators and government officials to provide legitimacy and support to restructuring and growth-enhancing policies.

The implied sweeping restructuring of Indonesia's economy will, if successfully implemented, establish the foundation for and stimulate economic growth. Improving the rules of the game and market institutions under which economic activity takes place will help the economy avoid a repeat of the current crisis and generate more equitable and sustainable benefits.

Section 3.2. Program and Illustrative Activities

Working within the framework of the GOI economic reform program and in collaboration with donors, USAID will assist the GOI to establish the sound foundation defined above through the provision of critical technical assistance on a timely basis to a number of key institutions of the GOI Executive and Legislative Branches - such as Ministry of Finance, Ministry of Industry and Trade (MOIT), Ministry of Law and Legislation, Bank Indonesia, State Minister for Cooperatives and Small Business, Bank Rakyat Indonesia (BRI), National Development Planning Agency (BAPPENAS), the national and local parliaments, the National Council of Economic Advisors (DEN), IBRA (Indonesian Bank Restructuring Agency), and JITF (Jakarta Initiative Task Force – Independent Regulatory Commissions and civil societies. Under this SO, the four Intermediate Results (IRs) are:

1. ***Sound Economic Policy and Institutions*** – Sound policy stimulates private investment, efficiency, and growth. Its timely and continued implementation requires transparent, accountable and efficient institutions of the GOI Executive Branch. The appropriateness and stability of the policy environment lowers the cost of adjustment and inspires investors' confidence. USAID TA will focus on assisting and strengthening institutions of the GOI Executive Branch to analyze, draft, propose, and implement the following policies:

- Macro Policies to Promote Recovery, Quality Growth and Poverty Alleviation: Recovery from the worse crisis in 35 years depends critically on bank and corporate restructuring, achieving fiscal sustainability and maintaining appropriate monetary and exchange rate policies. In the past, certain trade, industry and credit policies favored inefficient investments (e.g., aircraft manufacturing, national car program) and selected firms, including the creation of protected monopolies (wheat flour, cloves) that resulted in high costs to other sectors and economic players (e.g., clove farmers). Although Indonesia achieved high growth rates, it was not "quality growth" for it did not have the desired effects of maximizing employment, incomes, and poverty alleviation. These policies had high opportunity costs because the same resources could have been used elsewhere more productively. In addition to the economic recovery work with IBRA and JITF , USAID TA will also promote the "quality of growth" approach in the work with Bank Indonesia, Ministry of Finance, and BAPPENAS. Efforts to improve needed economic data with the

Central Body for Statistics will continue. Additional resources, if needed, will be allocated to the promotion of quality growth.

- Sector Policies to Liberalize Domestic Economy: The GOI strategy explicitly states their preference for growth based on their advantages in natural and human resources, and their commitment to an open trade regime. However, many constraints remain embedded in the structure of Indonesia's economy. Many sectors are on a negative investment list and closed to foreign investment. Many exports and imports remain restricted and regulated through bans, approval requirements for importers or exporters, and taxes and tariffs. Restrictive trading practices imposed through central government fiats are not compatible with the decentralization of decision making and devolution of central government authority that are sweeping across the country. In addition, the restructuring and liberalization of the domestic economy are expected to yield short-term increases in efficiency and welfare – politically valuable outcomes to support the current economic reform program. Within the context of the upcoming decentralization, USAID proposes to focus the priorities of the current policy advisory team within the Ministry of Industry and Trade toward the provision of advice to enhance domestic competition and competitiveness. Additional resources will, if needed, be allocated to the promotion of a more liberal and competitive domestic economy.
- Policy Environment for Micro, Small and Medium Enterprise (MSME) Development. The current policy environment is not conducive to the development of MSMEs. Mission will continue current TA in MOIT, Bank Indonesia, Cooperatives, and BAPPENAS. This TA focuses on sound economic policies and promoting open access to economic opportunities for all groups, including a more MSME-friendly policy environment.
- Food Policy: Creating food security at both the micro and macro levels is a complicated task. Food policy analysis links the macro economy with the rural economy and then traces the impact of changes in both sectors on the poor, mediated through changes in food production and consumption. A concern for Indonesia's food security, whether at the household level or in national food markets, must incorporate this macro perspective on the food economy in order to achieve good policy design and effective implementation. Three topics – rapid growth in the macro economy, poverty alleviation, and the stability of the food system – must be coordinated, integrated, and dealt with within the broad context of decentralization. A new "architecture" for macro food policy to address these issues is being proposed. Mission proposes to provide analytical expertise to assist the newly created Bureau of Food, Agriculture and Irrigation of BAPPENAS in building a new unit to analyze, plan, evaluate, coordinate, and monitor the vast array of policies that have an impact on food security and poverty alleviation.

2. *A Conducive Legal and Regulatory Framework* – A clearly-defined sound legal and regulatory environment enforced by Independent Regulatory Commissions reduces business uncertainty, lowers the hidden cost of doing business, and promotes investment and growth. USAID TA will be focussed on assisting the Ministry of Law and Legislation, law schools, professional associations, related NGOs, parliaments, and

Independent Regulatory Commissions in the drafting, promoting, passing, understanding and implementing of laws, decrees, and administrative orders and decisions to:

- liberalize the domestic economy;
- reform administrative procedures of GOI agencies;
- improve corporate governance;
- strengthen the enforceability of contracts and lower transaction cost;
- facilitate the impartial and expeditious resolution of property rights and contract disputes; and
- implement the anti-monopoly, anti-corruption, and consumer protection laws.

In addition support will be given to develop regulatory commissions, law schools - their curriculums and staffs - and professional associations.

3. *Open Access to Economic Opportunity* —In the past economic growth and poverty reduction were not sustainable because they occurred in an environment in which the rules and institutions were rigged in favor of a selected group of individuals. To avoid a repeat of the past, the playing field should be leveled for all economic agents, regardless of size of operations, gender or geographical location. The incentive regimes and public expenditures must be improved to encourage access for all Indonesians to worker education, training and health services; to business friendly environments, commercial credit for investment, and commercial support services for creation, sustained operation, and expansion of business activities; and, to appropriately priced public transport, services, and utilities. USAID will work more with civil societies by expanding its current program to:

- advocate for governments to be more MSME friendly. Specifics include streamlining and simplifying licensing procedures; simplifying the administration of taxes; making more open and transparent GOI procurement; improving access to publicly-owned natural resources; reducing the hidden costs of doing business; and facilitating access to market information and technology.
- improve MSME access to commercial credit for purpose of investment;
- improve commercial business services for purpose of helping MSMEs sustain and expand operations;
- promote within the contexts of decentralization the encouragement of MSMEs and the avoidance of practices that are "unfair" to MSMEs such as excessive restrictions and taxes;
- examine and encourage improvements in the social safety arrangements, e.g., social security insurance, unemployment insurance;
- promote understanding of and involvement on issues of gender, poverty and regional access;
- research and promote discussions on issues related to budget expenditures for social services to encourage that adequate funds are directed to health, education, public transport, and utilities.

4. *Knowledgeable Public Participation in Economic Decision Making* – The sustainability of economic decisions is strengthened when legislators, government officials and intended beneficiaries have ownership - i.e., good comprehension of, acceptance of, active advocacy for and role in shaping - of the economic policies. At the same time USAID is working with government bodies in the issuance and implementation of sound policies, legal and regulatory frameworks and access-enhancing programs, USAID proposes to assist legislators and civil societies to gain better understanding of and advocacy for the economic laws and policies. Means of assistance include the promotion of analyses and public hearings on economic policy and legislation questions and private sector membership in economic decision making bodies (e.g., National Task Force for the Development of Small and Medium Enterprises and Cooperatives), and strengthened media analyses and reporting

The above four IRs represent a complementary and holistic approach toward achieving results under this SO. The first IR deals with the supply side of sound policy and institutions of the GOI Executive Branch while the second one addresses supply issues of sound legal and regulatory frameworks enforced by Independent Regulatory Commissions. The third and fourth IRs deal with equitable distribution of economic benefits among Indonesians of different social/economic strata, regions, ethnic groups and gender and ownership or demand side of economic decisions. Together, activities under the third and fourth IRs will increase the likelihood that appropriate activities will be carried out under the first and second IRs and that they will be sustainable. Cross cutting themes, such as gender, public participation, etc., will be implemented to complement the IRs.

3. Funding and Financial Plan

The financial plan for the program "Economic Growth" is set forth in Table 1. Strategic Objective Agreement Budget Summary. From the date of the Strategic Objective Agreement onwards, obligations will be made in accordance with this Budget. Future USAID obligations under the Agreement are subject to the availability of funds and mutual agreement of the Parties to proceed.

The total USAID contribution obligated under this Agreement, over the Life of the Program (LOP), is estimated to be U.S. $185 million, including those provided under AERA (498-0001) subject to the availability of funds.

4. Roles and Responsibilities of the Parties

Section 4.1. Grantees and USAID Responsibilities

This program will continue to be managed by Steering Committee plus Technical Committee which have been established for the ARSSP SOAg.

The Technical Committee is a small group representing USAID and BAPPENAS, with other

GOI organizations as necessary. This group will meet quarterly, or as often as necessary to review and approve proposals and monitor progress. The Technical Committee may invite representatives of other Indonesian Government agencies and various economic sectors to join on an ad hoc basis to review proposals and comment on their merit. In addition there will be a Steering Committee. This committee will meet periodically. The Steering Committee will be comprised of representatives of the Technical Committee but will be broadened to include other Government of Indonesia representatives from entities such as the Ministry of Finance, the Ministry of Industry and Trade, and the Coordinating Ministry of Economics and Finance. The Steering Committee will be responsible for oversight of the Technical Committee. Details of the organization and working arrangements for both the Technical and Steering Committees will be the subject of separate implementation letters.

5. Implementation Arrangements

Section 6.1. Grants, Cooperative Agreements, and Contracts Awarded by USAID

USAID will solicit, manage, finance and take overall responsibility for goods and technical services to be procured which contribute to the Objective of this Agreement, "foundations set for rapid, sustainable, and equitable economic growth". USAID may use various different procurement mechanisms, such as grants, cooperative agreements, institutional contracts, indefinite quantity contracts, Participating Agreements with other U.S. Government Agencies (PASAs), and Personal Service Contracts (PSCs). This assistance will be used to provide technical assistance and other program support for program implementation.

Annex 2
Standard Provisions

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Standard Provisions

Article A: Definitions and Implementation Letters.

Section A.1. Definitions. As used in this Annex, the "Agreement" refers to the Strategic Objective Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement.

Section A.2. Implementation Letters. To assist the Grantee in the implementation of the Agreement, USAID, from time to time, will issue Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also issue jointly agreed-upon Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Implementation Letters can also be issued to record revisions or exceptions which are permitted by the Agreement.

Article B: General Covenants.

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

Section B.2. Execution of Agreement. The Grantee will:

(a) Carry out the Agreement 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 USAID 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 activities financed under the Agreement, and, as applicable for continuing activities, cause those activities to be operated and maintained in such manner as to assure the continuing and successful achievement of the Objective and Results of the Agreement.

Section B.3. Utilization of Goods and Services.

(a) Any goods and services financed under this Agreement, unless otherwise agreed in writing by USAID, will be devoted to the Agreement until the completion or termination of the Agreement, and thereafter (as well as during any period of suspension of the

Agreement) will be used to further the Objective of the Agreement and as USAID may direct in Implementation Letters.

(b) Goods or services financed under this Agreement, except as USAID 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 USAID Geographic Code 000 as in effect at the time of such use.

Section B.4. Taxation.

(a) General Exemption. The Agreement and the assistance thereunder are free from any taxes imposed under laws in effect in the territory of the Grantee.

(b) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to (1) any activity, contract, grant or other implementing agreement financed by USAID under this Agreement; (2) any transaction or supplies, equipment, materials, property or other goods (hereinafter collectively "goods") under (1) above; (3) any contractor, grantee, or other organization carrying out activities financed by USAID under this Agreement; (4) any employee of such organizations; and (5) any individual contractor or grantee carrying out activities financed by USAID under this Agreement.

(c) Except as provided otherwise in this provision, the General Exemption in subsection (a) applies to, but is not limited to, the following taxes:

> (1) Exemption 1. Customs duties, tariffs, import taxes, or other levies on the importation, use and re-exportation of goods or the personal belongings and effects (including personally-owned automobiles) for the personal use of non-national individuals or their family members.

Exemption 1 includes, but is not limited to, all charges based on the value of such imported goods, but does not include service charges directly related to services performed to transfer goods or cargo.

> (2) Exemption 2. Taxes on the income, profits or property of all (i) non-national organizations of any type, (ii) non-national employees of national and non-national organizations, or (iii) non-national individual contractors and grantees. Exemption 2 includes income and social security taxes of all types and all taxes on the property, personal or real, owned by such non-national organizations or persons. The term "national" refers to organizations established under the laws of the Grantee and citizens of the Grantee, other than permanent resident aliens in the United States.

(3) Exemption 3. Taxes levied on the last transaction for the purchase of goods or services financed by USAID under this Agreement, including sales taxes, value-added taxes (VAT), or taxes on purchases or rentals of real or personal property. The term "last transaction" refers to the last transaction by which the goods or services were purchased for use in the activities financed by USAID under this Agreement.

(d) If a tax has been levied and paid contrary to the provisions of an exemption, USAID may, in its discretion, (1) require the Grantee to refund to USAID or to others as USAID may direct the amount of such tax with funds other than those provided under the Agreement, or (2) offset the amount of such tax from amounts to be disbursed under this or any other agreement between the Parties.

(e) In the event of a disagreement about the application of an exemption, the Parties agree to promptly meet and resolve such matters, guided by the principle that the assistance furnished by USAID is free from direct taxation, so that all of the assistance furnished by USAID will contribute directly to the economic development of the country of the Grantee.

Section B.5. Reports and Information, Agreement Books and Records, Audits, and Inspections.

(a) Reports and Information. The Grantee shall furnish USAID accounting records and such other information and reports relating to the Agreement as USAID may reasonably request.

(b) Grantee Agreement Books and Records. The Grantee shall maintain accounting books, records, documents and other evidence relating to the Agreement, adequate to show, without limitation, all costs incurred by the Grantee under the Agreement, the receipt and use of goods and services acquired under the Agreement by the Grantee, agreed-upon cost sharing requirements, the nature and extent of solicitations of prospective suppliers of goods and services acquired by the Grantee, the basis of award of Grantee contracts and orders, and the overall progress of the Agreement toward completion ("Agreement books and records"). The Grantee shall maintain Agreement books and records in accordance with generally accepted accounting principles prevailing in the United States, or at the Grantee's option, with approval by USAID, other accounting principles, such as those (1) prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants) or (2) prevailing in the country of the Grantee. Agreement books and records shall be maintained for at least three years after the date of last disbursement by USAID or for such longer period, if any, required to resolve any litigation, claims or audit findings.

(c) Grantee Audit. If $300,000 or more of USAID funds are expended directly by the Grantee in its fiscal year under the Agreement, the Grantee shall have financial audits made of the expenditures in accordance with the following terms, except as the Parties may otherwise agree in writing:

(1) With USAID approval, the Grantee shall use its Supreme Audit Institution or select an independent auditor in accordance with the "Guidelines for Financial Audits Contracted by Foreign Recipients" issued by the USAID Inspector General ("Guidelines"), and the audits shall be performed in accordance with the "Guidelines"; and

(2) The audit shall determine whether the receipt and expenditure of the funds provided under the Agreement are presented in accordance with generally accepted accounting principles agreed to in section (b) above and whether the Grantee has complied with the terms of the Agreement. Each audit shall be completed no later than nine months after the close of the Grantee's year under audit.

(d) Subrecipient Audits. The Grantee, except as the Parties may otherwise agree in writing, shall submit to USAID, in form and substance satisfactory to USAID, a plan for the audit of the expenditures of "covered" subrecipients, as defined below, that receive funds under this Agreement pursuant to a direct contract or agreement with the Grantee.

(1) A "covered" subrecipient is one who expends $300,000 or more in its fiscal year in "USAID awards" (i.e., as recipients of USAID cost reimbursable contracts, grants or cooperative agreements and as sub-recipients under USAID strategic objective and other grant agreements with foreign governments).

(2) The plan shall describe the methodology to be used by the Grantee to satisfy its audit responsibilities for covered subrecipients. The Grantee may satisfy such audit responsibilities by relying on independent audits of the subrecipients; expanding the scope of the independent financial audit of the Grantee to encompass testing of subrecipients' accounts; or a combination of these procedures.

(3) The plan shall identify the funds made available to covered subrecipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities. (A nonprofit organization organized in the United States is required to arrange for its own audits. A for-profit contractor organized in the United States that has a direct contract with USAID is audited by the cognizant U.S. Government Agency. A private voluntary organization organized outside the United States with a direct grant from USAID is required to arrange for its own audits. A host-country contractor should be audited by the Grantee's auditing agency.)

(4) The Grantee shall ensure that covered subrecipients under direct contracts or agreements with the Grantee take appropriate and timely corrective actions; consider

whether subrecipients' audits necessitate adjustment of its own records; and require each such subrecipient to permit independent auditors to have access to records and financial statements as necessary.

(e) Audit Reports. The Grantee shall furnish or cause to be furnished to USAID an audit report for each audit arranged for by the Grantee in accordance with this Section within 30 days after completion of the audit and no later than nine months after the end of the period under audit.

(f) Other Covered Subrecipients. For "covered" subrecipients who receive funds under the Agreement pursuant to direct contracts or agreements with USAID, USAID will include appropriate audit requirements in such contracts or agreements and will, on behalf of the Grantee, conduct the follow-up activities with regard to the audit reports furnished pursuant to such requirements.

(g) Cost of Audits. Subject to USAID approval in writing, costs of audits performed in accordance with the terms of this Section may be charged to the Agreement.

(h) Audit by USAID. USAID retains the right to perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Agreement or other resources available to USAID for this purpose, conduct a financial review, or otherwise ensure accountability of organizations expending USAID funds regardless of the audit requirement.

(i) Opportunity to Audit or Inspect. The Grantee shall afford authorized representatives of USAID the opportunity at all reasonable times to audit or inspect activities financed under the Agreement, the utilization of goods and services financed by USAID, and books, records and other documents relating to the Agreement.

(j) Subrecipient Books and Records. The Grantee will incorporate paragraphs (a), (b), (d), (e), (g), (h) and (i) of this provision into all subagreements with non-U.S. organizations which meet the $300,000 threshold of paragraph (c) of this provision. Subagreements with non-U.S. organizations, which do not meet the $300,000 threshold, shall, at a minimum, incorporate paragraphs (h) and (i) of this provision. Subagreements with U.S. organizations shall state that the U.S. organization is subject to the audit requirements contained in OMB Circular A-133.

Section B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed USAID, or caused USAID to be informed, in the course of reaching agreement with USAID on the Agreement, are accurate and complete, and include all facts and circumstances that might materially affect the Agreement and the discharge of responsibilities under this Agreement; and

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

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

Section B.8. Information and Marking. The Grantee will give appropriate publicity to the Agreement as a program to which the United States has contributed, identify Agreement activity sites, and mark goods financed by USAID, as described in Implementation Letters.

Article C: Procurement Provisions.

Section C.1. Source and Origin.

C.1. Source and Origin.

(a) Foreign Exchange Costs. Disbursements for Foreign Exchange Costs will be used exclusively to finance the costs of goods and services required for the Agreement having, with respect to goods, their source and origin and, with respect to the suppliers of goods and services, their nationality, in the United States (USAID Geographic Code 000), except as USAID may otherwise agree in writing.

(b) Local Currency Costs. Disbursements for Local Currency Costs will be used exclusively to finance the costs of goods and services required for the Agreement which meet the requirements of USAID's local procurement policy which will be provided in an Implementation Letter.

(c) 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.

(d) Provisions concerning restricted and ineligible goods and services may be provided in an Implementation Letter.

(e) Transportation by air of property or persons financed under this agreement will be on carriers holding United States certification, to the extent service by such carriers is available under the Fly America Act. This requirement may be further described by USAID in Implementation Letters.

Section C.2. Eligibility Date. No goods or services may be financed under the Agreement 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 Grantee will furnish to USAID upon preparation:

> (1) any plans, specifications, procurement or construction schedules, contracts, or other documentation between the Grantee and third parties, relating to goods or services to be financed under the Agreement, 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 USAID on preparation; and
>
> (2) such documentation will also be furnished to USAID, upon preparation, relating to any goods or services, which, though not financed under the Agreement, are deemed by USAID to be of major importance to the Agreement. Aspects of the Agreement involving matters under this subsection (a)(2) will be identified in 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 Agreement will be approved by USAID in writing prior to their issuance, and their terms will include United States standards and measurements;

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

(d) Consulting firms used by the Grantee for the Agreement but not financed under the Agreement, the scope of their services and such of their personnel assigned to activities financed under the Agreement as USAID may specify, and construction contractors used by the Grantee for the Agreement but not financed under the Agreement, shall be acceptable to USAID.

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 Agreement. Such items will be procured on a fair and, to the maximum extent practicable, 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 Agreement, the Grantee will furnish USAID such information with regard thereto, and at such times, as USAID may request in Implementation Letters.

Section C.6. Transportation

(a) In addition to the requirements in Section C.1(a), costs of ocean or air transportation and related delivery services may not be financed under the Grant, if the costs are for transportation under an ocean vessel or air charter which has not received prior USAID approval.

(b) Unless USAID determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, or otherwise agrees in writing:

(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 USAID 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 USAID and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

Section C.7. Insurance.

(a) Marine insurance on goods financed by USAID which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided

(1) such insurance is placed at the most advantageous competitive rate;

(2) such insurance is placed in a country which is authorized under Section C.1(a); and

(3) claims thereunder are payable in U.S. dollars or any freely convertible currency unless USAID agrees otherwise in writing.

If the Grantee (or government of the Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to USAID-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 Grantee financed by USAID hereunder shall be insured against marine risks and such insurance shall be placed in the United States with a company or companies authorized to do marine insurance business in the United States.

(b) Except as USAID may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Agreement imported for the Agreement against risks incident to their transit to the point of their use under the Agreement; 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 Grantee 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 Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in USAID 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 Grantee agrees that wherever practicable United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Agreement may be used to finance the costs of obtaining such property.

Article D: Disbursements.

Section D.1. Disbursement for Foreign Exchange Costs.

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

(1) by submitting to USAID, with necessary supporting documentation as prescribed in Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for USAID to procure commodities or services in Grantee's behalf for the Agreement; or,

(2) by requesting USAID to issue Letters of Commitment for specified amounts directly to one or more contractors or suppliers, committing USAID to pay such contractors or suppliers for such goods or services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment will be financed under the Agreement unless the Grantee instructs USAID to the contrary. Such other charges as the Parties may agree to may also be financed under the Agreement.

Section D.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, if any, the Grantee may obtain disbursements of funds under the Agreement for Local Currency Costs required for the Agreement in accordance with terms of this Agreement, by submitting to USAID, with necessary supporting documentation as prescribed in Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be purchased by USAID with U.S. Dollars. The U.S. Dollar equivalent of the local currency made available hereunder will be the amount of U.S. Dollars required by USAID to obtain the local currency.

Section D.3. Other Forms of Disbursement. Disbursements may also be made through such other means as the Parties may agree to in writing.

Section D.4. Rate of Exchange. If funds provided under the Agreement are introduced into the Cooperating Country by USAID or any public or private agency for purposes of carrying out obligations of USAID hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into local currency at the highest rate of exchange which, at the time the conversion is made, is not unlawful in the country of the Grantee to any person for any purpose.

Article E: Termination; Remedies.

Section E.1. Suspension and Termination.

(a) Either Party may terminate this Agreement in its entirety by giving the other Party 30 days written notice. USAID also may terminate this Agreement in part by giving the Grantee 30 days written notice, and suspend this Agreement in whole or in part upon giving the Grantee written notice. In addition, USAID may terminate this Agreement in whole or in part, upon giving the Grantee written notice, if (i) the Grantee fails to comply with any provision of this Agreement, (ii) an event occurs that USAID determines makes it improbable that the Objective or Results of the Agreement or the assistance program will be attained or that the Grantee will be able to perform its obligations under this Agreement, or (iii) any disbursement or use of funds in the manner herein contemplated would be in violation of the legislation governing USAID, whether now or hereafter in effect.

(b) Except for payment which the Parties are committed to make pursuant to noncancellable commitments entered into with third parties prior to such suspension or termination, suspension or termination of this entire Agreement or part thereof will suspend (for the period of the suspension) or terminate, as applicable, any obligation of the Parties to provide financial or other resources to the Agreement, or to the suspended or terminated portion of the Agreement, as applicable. Any portion of this Agreement which is not suspended or terminated shall remain in full force and effect.

(c) In addition, upon such full or partial suspension or termination, USAID may, at USAID's expense, direct that title to goods financed under the Agreement, or under the applicable portion of the Agreement, be transferred to USAID if the goods are in a deliverable state.

Section E.2. 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, USAID, notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to USAID within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed or supported under the Agreement are not used effectively in accordance with this Agreement, USAID may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for or in connection with such goods or services in U.S. Dollars to USAID within sixty (60) days after receipt of a request therefor.

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

(d) (1) Any refunds under subsections (a) or (b), or (2) any refund to USAID from a contractor, supplier, bank or other third party with respect to goods or services financed under the Agreement, 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 Agreement, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on funds disbursed by USAID to the Grantee under this Agreement prior to the authorized use of such funds for the Agreement will be returned to USAID in U.S. Dollars by the Grantee, unless USAID otherwise agrees in writing.

Section E.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Section E.4. Assignment. The Grantee agrees, upon request, to execute an assignment to USAID of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a Party to a direct U.S. Dollar contract which USAID financed in whole or in part out of funds granted by USAID under this Agreement.

Article F: Miscellaneous.

Section F.1. Job Loss, Export Processing Zones and Workers' Rights.

(a) No funds or other support provided hereunder may be used in an activity reasonably likely to involve the relocation or expansion outside of the United States of an enterprise located in the United States if non-U.S. production in such relocation or expansion replaces some or all of the production of, and reduces the number of employees at, said enterprise in the United States.

(b) No funds or other support provided hereunder may be used in an activity the purpose of which is the establishment or development in a foreign country of any export processing zone or designated area where the labor, environmental, tax, tariff, and safety laws of the country would not apply, without the prior written approval of USAID.

(c) No funds or other support provided hereunder may be used in an activity which contributes to the violation of internationally recognized rights of workers in the recipient country, including those in any designated zone or area in that country.

Section F.2. Prohibition on Assistance to Drug Traffickers.

(a) USAID reserves the right to terminate this Agreement or take other appropriate measures if the Grantee or a key individual of the Grantee is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.

(b) USAID reserves the right to terminate assistance to, or take or take other appropriate measures with respect to, any participant approved by USAID who is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.

(c) For any loan over $1000 made under this [Agreement/Contract], the Grantee shall insert a clause in the loan agreement stating that the loan is subject to immediate cancellation, acceleration, recall or refund by the Grantee if the borrower or a key individual of a borrower is found to have been convicted of a narcotics offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140.

(d) Upon notice by USAID of a determination under section (x) and at USAID's option, the Grantee agrees to immediately cancel, accelerate or recall the loan, including refund in full of the outstanding balance. USAID reserves the right to have the loan refund returned to USAID.

(e) The Grantee agrees not to disburse, or sign documents committing the Grantee to disburse, funds to a subrecipient designated by USAID ("Designated Subrecipient") until advised by USAID that: (1) any United States Government review of the Designated Subrecipient and its key individuals has been completed; (2) any related certifications have been obtained; and (3) the assistance to the Designated Subrecipient has been approved.

(1) The Grantee shall insert the following clause, or its substance, in its agreement with the Designated Subrecipient:

(2) The Grantee reserves the right to terminate this Agreement or take other appropriate measures if the [Subrecipient] or a key individual of the [Subrecipient] is found to have been convicted of a narcotic offense or to have been engaged in drug trafficking as defined in 22 CFR Part 140."

Strategic Objective Grant Agreement
Economic Growth
in (000) US$

TABLE 1
BUDGET SUMMARY

COMPONENT	AERA	ECG	TOTAL	Future Obligation		TOTAL ANTICIPATED SO-Ag FUNDING		
	This Agreement (a)	This Agreement (b)	This Agreement (c) = (a) + (b)	FY 2000 (d)	FY 01 - 04 (e)	A.I.D Funding (f) = (c) + (d) + (e)	G.O.I.* Funding	Total Program
GRANTS	0	4,530	4,530	0	15,000	19,530	0	19,530
TECHNICAL ASSISTANCE	7,000	11,233	18,233	2,798	71,629	92,660	0	92,660
ADMINISTRATION & EQUIPMENT	0	387	387	0	2,321	2,708		2,708
AUDIT/EVAL	0	200	200	0	400	600	0	600
TOTAL	7,000	16,350	23,350	2,798	89,350	115,498	0	115,498

* Due to Economic Crisis, the 25% GOI contribution is not required