

June 25, 1986

**GRANT AGREEMENT BETWEEN THE UNITED STATES OF AMERICA
AND THE REPUBLIC OF THE PHILIPPINES FOR THE BUDGET
SUPPORT PROGRAM**

GRANT AGREEMENT

By this Agreement made and entered into on the 25th day of June, 1986, the Government of the Republic of the Philippines (hereinafter referred to as the "Grantee") and the United States of America, acting through the Agency for International Development (hereinafter referred to as "A. I.D.") hereby agree as follows:

Section 1: The Grant.

Pursuant to the Foreign Assistance Act of 1961, as amended, A.I.D. hereby grants to the Grantee an amount of pesos equivalent, as determined in accordance with this Agreement, to Two Hundred Million United States Dollars (U.S.\$200,000,000.00) (the "Grant") for the Budget Support Program ("BSP") as defined in Section 2 and Annex 1 hereto.

Section 2: The Budget Support Program.

BSP will consist of peso budget support to assist the Grantee's financing of peso disbursements in the Grantee's 1986 Budget Year for costs incurred in the Grantee's 1986 budget year on or after March 1, 1986 in selected budget categories, with priority for the agriculture, health and education sectors. Funds made available through the Grant shall be reported exclusively against disbursements in the budget categories agreed upon by the Grantee and A.I.D. in accordance with Section 5.2(B) of this Agreement.

Section 3: Conditions Precedent to Disbursement by A.I.D.

Prior to the disbursement of pesos under Section 4 of this Agreement, or to the issuance of documentation pursuant to which such disbursement will be made, the Grantee shall, 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 Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms; and

B. A statement of the name of the person holding or acting in the office of the Grantee specified in Section 7.8 of this Agreement, and of any additional representatives, together with a specimen signature of each person specified in such statement.

Section 4: Peso Disbursement.

Upon satisfaction of the conditions precedent to disbursement described in Section 3 of this Agreement, A.I.D. shall disburse to the Grantee for deposit in a non-interest-

bearing Special Account (the "BSP Fund Account") an amount of pesos equivalent to Two Hundred Million United States Dollars (U.S.\$200,000,000.00). The amount of pesos to be disbursed under this Section shall be determined on the basis of the rate or rates of exchange obtained by the U.S. Regional Administrative Management Center, Bangkok, Thailand, through its agents from the Central Bank of the Philippines in acquiring the pesos to be transferred.

Section 5: Transfer of Pesos from the BSP Fund Account to the General Fund.

5.1. Restriction on Transfer of Pesos from the BSP Fund Account to the General Fund Account. Except as A.I.D. may otherwise agree in writing, pesos held in the BSP Fund Account may not be transferred except as provided in this Section 5

5.2. Condition Precedent to Initial Transfer of Pesos from the BSP Fund Account. Prior to the initial transfer of pesos from the BSP Fund Account to the Grantee's General Fund Account, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A. I.D., in form and substance satisfactory to A. I.D.:

A. A copy of an implementation plan specifying the responsibilities and interrelationships of the entities involved in the implementation of BSP; and

B. A statement of the budget categories and eligible programs within those budget categories based on the budget then in effect for the Grantee's 1986 Budget Year, against which disbursements in the Grantee's 1986 Budget Year for costs incurred or to be incurred in the Grantee's 1986 Budget Year on or after March 1, 1986 will be reported for purposes of BSP and a statement of the total amount of pesos agreed to be disbursed in that period in those budget categories for such costs; and

C. A statement of estimated disbursements through the end of the third quarter of the Grantee's 1986 Budget Year for costs incurred and to be incurred that the Grantee and A.I.D. agree is reasonable or reasonably anticipated for the budget categories specified in Section 5.2(B) for March, 1986 (to the extent disbursements for such costs incurred can be estimated for such period) and for the second and third quarters of the 1986 Budget Year of the Grantee.

5.3 Initial Transfer of Pesos. Upon receipt by the Grantee of notification from A.I.O. that the conditions precedent to initial transfer of pesos from the BSP Fund Account specified in Section 5.2 have been satisfied, pesos in the BSP Fund Account shall be transferred by the Grantee to the Grantee's General Fund Account in the amount specified in the statement provided under Section 5.2(C).

5.4. Subsequent Transfer of Pesos from the BSP Fund Account.

A. The statement furnished to A.I.D. by the Grantee pursuant to Section 5.2(C) may be amended by the Grantee from time to time at any time prior to the date by which the first report under Section 6.2(A) is required to be delivered to A.I.D. Upon receipt by the Grantee of notification from A.I.D. that any such amended statement provided to A.I.D. by the Grantee is in form and substance satisfactory to A.I.D., the amount of pesos by which (i) the amount shown in such amended statement of estimated disbursements through the end of the third quarter of the Grantee's 1986 Budget Year for costs incurred and to be incurred that the Grantee and A.I.D. agree is reasonable or reasonably anticipated for the budget categories specified in Section 5.2(B) for March, 1986 (to the extent disbursements for such costs incurred can be estimated for such period) and for the second and third quarters of the 1986 Budget

Year of the Grantee exceeds (ii) the aggregate amount of pesos previously transferred from the BSP Fund Account to the Grantee's General Fund Account, shall be transferred by the Grantee to the Grantee's General Fund Account.

B. Upon receipt by the Grantee of notification from A. I.D. that a report or amended report provided in accordance with Section 6.2(A) of this Agreement for any quarter is in form and substance satisfactory to A.I.D., an amount of pesos shall be transferred by the Grantee from the BSP Fund Account to the Grantee's General Fund Account, which when added to (i) the amount by which the cumulative amount of pesos previously transferred from the BSP Fund Account to the Grantee's General Fund Account under this Agreement exceeds the amount that said report shows to have been disbursed as of the end of such quarter for costs incurred in the Grantee's 1986 Budget Year on or after March 1, 1986 in the budget categories agreed upon in accordance with Section 5.2(B), equals (ii) the amount of pesos that the Grantee and A.I.D. agree is reasonably anticipated to be disbursed through the end of the second fiscal quarter following the fiscal quarter through the end of which the report covered for costs incurred and to be incurred for the budget categories specified in Section 5.2(B) during the two fiscal quarters following the fiscal quarter through the end of which the report covered. Transfer of pesos from the BSP Fund Account to the Grantee's General Fund Account shall continue in the foregoing manner until all pesos in the BSP Fund Account have been transferred.

Section 6: Special Covenants of the Grantee.

6.1. Disbursements in Selected Budget Categories. Except as A. I.D. may otherwise agree in writing, the Grantee agrees to disburse in the Grantee's 1986 Budget Year at least the amount of pesos to be agreed upon in accordance with Section 5.2(B) in the agreed upon budget categories for costs incurred in the Grantee's 1986 Budget Year on or after March 1, 1986.

6.2. Reports.

A. Unaudited Quarterly Reports. The Grantee agrees to furnish A.I.D. unaudited quarterly reports, which may be amended, by the end of the following quarter, of cumulative disbursements through the end of the period reported upon for costs incurred in the Grantee's 1986 Budget Year for March, 1986 (to the extent information for such period is reasonably available) and for the period on or after April 1, 1986, in the budget categories agreed upon in accordance with Section 5.2(B).

B. Audited Final Report. The Grantee agrees to furnish A.I.D. a final report by September 30, 1987 audited by the Commission on Audit on disbursements through the end of the Grantee's 1986 Budget Year for costs incurred in the Grantee's 1986 Budget Year for March, 1986 (to the extent information for such period is reasonably available) and for the period on or after April 1, 1986, in the budget categories agreed upon in accordance with Section 5.2(B). The Grantee shall also furnish with this final report a certification, in form and substance satisfactory to A.I.D., that an amount at least equal to the amount of pesos released from the BSP Fund Account to the Grantee's General Fund Account has not been reported against other resources available to the Grantee for disbursements for such costs.

Section 7: General Covenants.