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A.I.D. Project No: 383-0101

PROJECT
GRANT AGREEMENT
BETWEEN
THE DEMOCRATIC SOCIALIST REPUBLIC OF
SRI LANKA
AND THE
UNITED STATES OF AMERICA
FOR
PVO CO-FINANCING II

Dated: August 28, 1987

Loan and Grant Agreements

FM/LMD (if Loan)

FM/PAFD

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GC/ANE

ANE/Desk

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A.I.D. Project No. 383-0101

Project Grant Agreement

Dated: August 28, 1987

Between

The Democratic Socialist Republic of Sri Lanka ("Grantee")

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 Grantee 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 1, will assist the Grantee to enhance opportunities for local communities to participate in their own development by providing grants to Private and Voluntary Organizations ("PVO's") for community development activities, and by assisting PVO's to increase their effectiveness.

Annex 1, 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 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2 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 Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed One Million Five Hundred and Forty-six Thousand United States ("U.S.") Dollars (\$1,546,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Project

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Grantee and the PVOs for the Project will not be less than the equivalent of U.S.(\$3,500,000) including costs borne on an "in-kind" basis.

SECTION 3.3. Project Assistance Completion Date

(a) The "Project Assistance Completion Date" (PACD), which is August 31, 1993 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 Grant will have been performed and all goods financed under the Grant 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 Grant 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 7.1 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 Grantee, may at any time or times reduce the amount of the Grant 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: Conditions Precedent to Disbursement

SECTION 4.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) a statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement;

(b) evidence of the establishment of the Project Review Group.

SECTION 4.2. Notification. When A.I.D. has determined that the conditions precedent specified in Section 4.1 have been met, it will promptly notify the Grantee.

SECTION 4.3. Terminal Dates for Condition Precedent. If all of the conditions specified in Section 4.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 5: Special Covenants

SECTION 5.1. 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.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under this Grant only on vessels under flag registry of the United States except as A.I.D. may otherwise agree in writing.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 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 Sri Lanka ("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 7: Disbursement

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursement of funds under the Grant 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 good or services, or, (B) requests for A.I.D. to procure commodities or services in Grantee'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 Letters 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 Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement of Local Currency Costs.

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

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars by purchase;

(2) by A.I.D. requesting the Grantee to make available the local currency for such costs, and thereafter reimbursing an amount of U.S. Dollars equal to the amount of local currency made available by the Grantee. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Sri Lanka by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of Sri Lanka at the highest rate of exchange which, at the time of conversion is made, is not unlawful in Sri Lanka.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document, or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

Mail Address: Director, External Resources Department
Ministry of Finance and Planning
Colombo 1, Sri Lanka

Alternate Address for cables:
FORAID
COLONBO, SRI LANKA

To A.I.D.:

Mail Address: Director, USAID, Colombo
American Embassy, Colombo
Sri Lanka

Alternate Address for cables:
USAID, AMEMBASSY
COLOMBO, SRI LANKA

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 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Director, External Resources Department, Ministry of Finance and Planning and A.I.D. will be represented by the individual holding or acting in the office of Director, U.S.A.I.D. Mission to Sri Lanka, 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 1. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms parts of this Agreement.

IN WITNESS WHEREOF, the Grantee 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.

GOVERNMENT OF THE SOCIALIST REPUBLIC
OF SRI LANKA

by: C. Chanmugam
Name: C. Chanmugam

Title: Secretary,
Ministry of Finance & Planning

GOVERNMENT OF THE UNITED STATES
OF AMERICA

by: James W. Spain
Name: James W. Spain

Title: American Ambassador

PVO CO-FINANCING PROJECT II
AMPLIFIED PROJECT DESCRIPTION

A. Project Goal and Purpose

The goal of the Project is to foster economic and social development of Sri Lanka by increasing the number and diversity of private organizations which address significant local and national development problems.

The purpose of the Project is to enhance opportunities for local communities to participate in their own development by increasing the involvement and effectiveness of private voluntary organizations (PVOs). The Project's primary focus will be on those PVO development activities in areas consistent with AID and GSL objectives of increasing rural productivity and incomes, and increasing private enterprise development.

It is anticipated by the end of the Project that:

1. at least 30 grants will have been provided to PVOs;
2. at least one active PVO Association will have been substantially strengthened;
3. at least 50 micro-grants will have been provided to small regional and community-based PVOs;
4. at least 20 indigenous PVOs will have been assisted to improve their management skills through training, workshop activities and technical assistance.

These measurable outputs are expected to contribute to the following:

1. more active participation by local communities in development activities;
2. increased participation by small regional and community-based PVOs;
3. improved quality of sub-project proposals;
4. incorporation of sub-project evaluation component and resulting recommendations in sub-projects;
5. geographic dispersal of sub-project grants;
6. continued PVO interest in workshops/seminars for skills upgrading in such areas as data collection, proposal preparation and project implementation and evaluation;
7. community sustainability of follow-on sub-project activities.

B. Project Activities

The Project includes four components. The major component is providing co-financing grants to U.S. and indigenous PVOs. Other components are: (1) micro-grants to small indigenous regional and community-based PVOs; (2) improving PVO management skills; and (3) strengthening of one or more PVO Associations.

1. Co-financing Grants

Funding of co-financing grants to Sri Lankan and U.S. PVOs is the major element of the Project and is the principal strategy for promoting participatory community development. Co-financing grants may range in size from \$25,000 upwards and will include contributions of at least 25% from other non-AID sources identified by the PVO grantee. The more established the PVO, the more it may be expected to contribute funds generated from non-AID sources.

To be considered for funding, the PVO and its proposal must meet a set of minimum criteria for review. Some of these criteria are not specific to the substance of the proposal, but concern clarity and completeness and evidence of minimum non-AID funding. Beyond this, proposals are reviewed according to a set of criteria which reflect priority concerns of the Project and reflect the quality of the proposed sub-project.

Eligibility of the PVO

- a. The PVO must be registered either with AID/W or, in the case of a local PVO, with USAID/Colombo.
- b. The PVO must be registered with GSL.
- c. The PVO must agree to follow standard USAID and GSL procedures and practices in sub-project implementation.
- d. The PVO must demonstrate capacity to design, implement and evaluate sub-project.
- e. The PVO must exhibit capability to manage the grant.
- f. The PVO must be able to demonstrate that it has knowledge and familiarity with Sri Lanka and the project area.
- g. A factor which may be taken into account is whether the PVO can demonstrate favorable past performance in managing projects with donor funding.
- h. In addition, an intermediary organization proposing a micro-grant program must demonstrate its criteria for selection of micro-grantees and its general procedures for making such grants.

Eligibility of the Proposal

- a. Generally the proposal should be designed to increase productivity and income, and/or to promote private enterprise. Examples include activities concerning better production methods, delivery and marketing systems, small entrepreneur development, skills development and training to increase employment. Approximately 15% of project funds made available for grants to PVO's may be for projects in other areas such as health, education, human rights, and environmental protection. However, no projects may be approved for population or family planning activities.
- b. The proposal may not contain any component which is either illegal or in direct contradiction of USAID or GSL regulations or policy, e.g., importation of firearms, or promotion of religious activities.
- c. In addition, proposals must:
 - (i) be complete in presentation, i.e., all required sections are included.
 - (ii) include an appropriate evaluation and monitoring plan, including necessary budget allocations.
 - (iii) clearly identify that direct and indirect beneficiaries will be from the lowest income groups.
 - (iv) demonstrate technical feasibility.
 - (v) show a logical sub-project design which relates inputs to outputs and purpose.
 - (vi) demonstrate potential for timely completion.
 - (vii) demonstrate that the local community will participate in sub-project activities, where appropriate.
 - (viii) demonstrate that the sub-project is socially sound and economically feasible with positive economic returns where appropriate.
 - (ix) demonstrate a PVO or local community contribution of at least 25% in cash or in kind.
 - (x) include an environmental analysis which demonstrates the activity will have no negative environmental effects.

- d. Other factors which may be taken into account are whether the proposal:
- (i) promotes the role of women in development or otherwise promotes relatively disadvantaged groups.
 - (ii) demonstrates that the end-of-project conditions are sustainable or replicable.
 - (iii) has potential for developing capability of existing private local groups to actively and independently continue development activities.
 - (iv) includes local community participation in all phases of proposed activities, including design.
 - (v) is in a region or for an activity either under- or oversubscribed by the Project.
 - (vi) has cash for work and food for work kept to a minimum.

2. Strengthening PVO Associations

The Project provides funding to strengthen one or more indigenous PVO Associations which have potential to help develop the effectiveness of its independent member PVO's.

The function of the PVO Association should be to:

- a. coordinate and stimulate discussion between PVOs about common development issues;
- b. coordinate training and workshop activities for PVOs;
- c. disseminate information about PVO activities to member PVOs;
- d. act as a liaison between PVO members and the GSL, and
- e. assist smaller PVO's to identify projects and write proposals.

It is anticipated that the participating PVO Associations will be non-profit, with an elected director, regularly elected board of governors and independent member PVOs. Strengthening efforts may be required to improve the performance of the PVO Association in one or more areas. An expatriate consultant will be assigned to work with the PVO Association to help it develop its long range plans, and provide other assistance. Grants may also be provided to PVO Associations to support their activities. The Project provides funding for support costs and for one locally-recruited full-time professional, experienced in program and grant administration and assistance to PVOs, who may act as advisor to the PVO Association.

3. Experimental Micro-grants Program

The micro-grants program is funded on an experimental basis to assist PVOs conducting very small-scale, short-term micro-grant projects. This program is designed to reach smaller regional and community-based voluntary organizations which have the capacity to mobilize and manage resources, but lack the personnel, expertise, language skills or presence in Colombo to apply for the larger grant program outlined above.

It is expected that micro-grants will be completed in a period of less than one year. They may involve construction of community facilities or support for community affairs (e.g., forest nursery, firewood lot, community tank, well or pump, community center, library, agricultural fair or youth activity). They may also involve setting up local training institutes such as woodworking shops, construction of minor local irrigation works or improvement of existing works.

Each micro-grant will range in size from \$500 to \$10,000 although preference will be given to smaller individual micro-grants of less than \$5,000.

Management of micro-grants will be the responsibility of an intermediary organization, which will administer the program and be responsible for processing, screening and approving applications for micro-grants.

It is anticipated that the program will involve activities in two or three adjacent districts in Sri Lanka, to permit a more concentrated effort, to facilitate monitoring, and to permit greater assistance to micro-grantees in proposal writing, project design and implementation. If the micro-grants program is found to be successful after a two year trial period, it may be expanded to include other districts and possibly, other intermediary organizations.

4. Improving PVO Management Skills

One element of the Project is funding for training and workshop activities to help improve PVO skills in project design and implementation, financial management, and project monitoring and evaluation. In addition, technical assistance may be provided to specific PVOs as the need is identified or assistance requested.

Criteria for Selection of Training and Workshop Proposals

Proposals for training and workshop activities may be handled through the strengthened PVO Association or PVOs may apply directly to MOPI for funding. Proposals must:

- a. be complete in presentation, i.e., all required sections are included;
- b. include necessary budget allocations;
- c. demonstrate knowledge and familiarity with Sri Lanka;

- d. clearly identify participants and extent of impact of proposed activity;
- e. demonstrate access to or previous experience and skill in conducting the proposed activity;
- f. demonstrate a minimum of 25% cash or in-kind contribution from outside sources.

Training and Workshop proposals preferably should also:

- a. be consistent with GSL/USAID priority of imparting management skills to PVOs in sub-project design, implementation and monitoring and evaluation;
- b. demonstrate favorable past performance with AID and USAID/Colombo;
- c. promote participation of PVOs working on women-in development projects;
- d. show potential for developing capabilities of existing private local groups to manage sub-projects;
- e. demonstrate potential for timely implementation of sub-project activities;
- f. demonstrate that the training and workshop activity is in a subject or region(s) not already oversubscribed by the Project.

Assistance in conducting training and workshop activities may be sought from local training institutes, local consultants, or expatriate technical assistance.

C. Project Implementation

1. PVO Grant Program

In order to receive a grant, the interested PVO applicant may prepare a brief concept paper and forward it to the MOPI. MOPI may request USAID or members of line ministries to assist in the review of concept papers as deemed necessary. When a complete proposal has been prepared according to the guidelines and criteria stated above, MOPI will circulate copies among:

- a. Additional Director, Department of External Resources
- b. GSL Line Ministry/Ministries concerned
- c. the PVO Association, when one is approved by the GSL and USAID
- d. USAID

The agencies listed above shall review the proposals in detail and forward their comments to MOPI within three weeks of receipt of the proposal. The proposal will then be reviewed by the Proposal Review Group (PRG). The PRG will consist of the Secretary, MOPI or his nominee, the Additional Director of External Resources or her nominee, and the USAID representative.

If the PRG finds the proposal acceptable, it will make its recommendations to the Director, Department of External Resources (ERD). ERD will forward the proposal to USAID, requesting that USAID enter into a grant agreement with the PVO if the sub-project is found to be in compliance with the Agreement. The PVO grants will be executed in accordance with AID regulations.

A PVO receiving a grant will be required to provide the following reports and audits to the Ministry of Plan Implementation and USAID:

- a. quarterly progress reports;
- b. annual audit report prepared by an independent public accounting firm, agreed to by the MOPI and USAID;
- c. quarterly financial statements on status of funds (to USAID only);
- d. mid-term and final sub-project evaluation reports.

PVO's receiving funding for training and workshop activities will submit a final report to the Ministry of Plan Implementation and USAID after completion of the designated activity.

2. The Micro-grant Program

Intermediary organizations may apply for funds to administer a micro-grants program by submitting a proposal to the PRG. Proposals must include the intermediary organization's plan for soliciting micro-grant proposals, guidelines for acceptance of micro-grant proposals, and plans to monitor the implementation of micro-grant activities.

In the initial stages, the PRG may assist the intermediary organization in screening appropriate proposals for micro-grant funding and may provide other assistance as required. Technical assistance may be provided to the intermediary organization.

3. Training

PVOs interested in conducting workshops focused on PVO management skills may apply for funding to the strengthened PVO Association or directly to MOPI. The proposal should include a list of possible PVO participants and criteria for participant selection. The PVO will be responsible for arranging the activity but may request assistance from USAID where necessary. The PVO Association or other organization conducting workshops will be responsible for any procurement required for such activities.

It is not anticipated that training and workshop activities will take place outside Sri Lanka. However, PVOs interested in participating in off-island training or workshop activities may apply for funding through the PRG.

4. Technical Assistance

USAID will identify and contract for U.S. and Sri Lankan consultants to work with Sri Lankan PVOs, PVO Associations and intermediary organizations as required.

5. Project Monitoring

USAID and MOPI will review progress reports and financial statements submitted by PVOs and the PVO Association against the grantee's implementation plan.

Representatives from USAID and MOPI are expected to visit sub-project sites to monitor progress. Alternatives to direct site visits by USAID and MOPI staff may be explored under the Project if the security situation makes such visits inadvisable.

The PRG will also review progress on all sub-projects, including the micro-grants program and training and workshop activities, at its monthly meeting, and take remedial measures as necessary through the relevant line ministry or intermediary organization.

Officials of the line Ministry/Ministries concerned, if any, may monitor the implementation of sub-projects other than micro-grants.

6. Evaluation

Overall project evaluations will be conducted midway and at the completion of the Project. Particular attention will be given to the effectiveness of the Project in increasing the number and range of PVOs and community organizations involved in the Project.

The evaluations will also assess the effectiveness of the Project in imparting management skills to PVOs and community organizations, the adequacy of the training and technical assistance activities, the role of the intermediary organizations in managing micro-grants and the micro-grant projects themselves. Assessment of the financial management and accounting procedures adopted by micro-grantees and the intermediary organization will also be made. These evaluations are expected to be carried out by consultants under contract with USAID.

A separate evaluation of the micro-grants program will be conducted after a period of two years of implementation to assess progress.

D. Financial Plan

An illustrative financial plan is included at Attachment 1 to this Annex. The Financial Plan is subject to change by the representatives named in Section 9.3 of the Agreement, without formal amendment of the Agreement, provided that such changes do not cause (1) A.I.D.'s contribution to exceed the amount specified in the text of the Agreement, or (2) the Grantee's contribution to be less than the amount specified in the text of the Agreement. Adjustments between line items which exceed 15% must be agreed to in writing. Future increments are subject to the availability of funds for this purpose and the mutual agreement of the Parties to proceed.

PVO CO-FINANCING II

PROJECT FINANCIAL PLAN
(Source and Application of Funding - \$000)

Category	A		I		D		Project Total			
	Cumulative Obligations as of August 1987		Future Years* Anticipated							
	FX	LC	FX	LC	AID		GSL	PVO		
					FX	LC	LC	FX	LC	
1. Sub-Project Grants	500	1,046	47	2,157	547	3,203	80	450	2,544	
2. Micro Grants	-	-	40	210	40	210	-	-	65	
3. Strengthening PVO Association	-	-	80	170	80	170	-	-	25	
4. Management Skills	-	-	200	50	200	50	10	-	25	
5. Evaluation	-	-	46	100	46	100	-	-	-	
6. Contingency	-	-	87	313	87	313	10	50	295	
TOTAL	500	1,046	500	3,000	1,000	4,046	100	500	2,954	

*Future years obligations are subject to the availability of funds and mutual agreement of the parties to proceed.

**GSL total includes in-kind contribution and staff salaries. The GSL contribution for this Project is based on an exchange rate of Rs. 29.46 to US\$ 1.00.

Project Grant StandardProvisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project 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. The Government of the Democratic Socialist Republic of Sri Lanka is the "Cooperating Country" or "Grantee".

Article A: Project Implementation Letters

To assist Grantee 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 1.

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 Grantee 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 Grant 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.

Article B: General Covenants (Continued)

(b) Goods or services financed under the Grant, 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 Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantees.

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

SECTION B.5. Reports, Records, Inspections, Audit. The Grantee 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 receipts and use of goods and services acquired under the Grant. 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 solicitation 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 representative 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 Grant.

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

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

Article B: General Covenants (Continued)

(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. 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 Grant, 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 Grant 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 Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

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

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant 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 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 Grant, 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;

Article C: Procurement Provisions (Continued)

(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 Grant, 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 Grant 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 Grant 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 Grantee for the Project but not financed under the Grant, 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 Grantee for the Project but not financed under the Grant, 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 Grant. Such items will be produced 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 Grant, the Grantee 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 Grantee may not be financed under the Grant 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, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee 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 Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country

Article C: Procurement Provisions (Continued)

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 on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel of 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 goods 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 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 sub-section 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 A.I.D. 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 lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), 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 Grantee 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 Grantee will insure, or cause to be insured, goods financed under the Grant 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 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

Article C: Procurement Provisions (Continued)

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 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 Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.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, A.I.D., 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 A.I.D. 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 under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursement under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (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.

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Article D: Termination; Remedies (Continued)

(d) (1) Any refund under subsection (a) or (b), 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 Grant, 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 reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.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 D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. 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 with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.