

Loan and Grant Agreements

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PD ABB-725
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A.I.D. Project Number 383-0101

AMENDMENT NUMBER 4
TO THE
GRANT AGREEMENT
BETWEEN
THE UNITED STATES OF AMERICA
AND
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA
FOR
PVO CO-FINANCING II

GRANT AGREEMENT AMENDMENT

AMENDMENT Number 4 dated August 22, 1990, between the UNITED STATES OF AMERICA, acting through the Agency for International Development ("A.I.D."), and the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Grantee"):

WHEREAS, the Grantee and A.I.D. entered into a PVO Co-Financing II Project Grant Agreement, dated August 28, 1987, and Amendment Number One dated September 30, 1987, Amendment Number Two dated May 26, 1988, and Amendment Number Three dated March 29, 1989 and (the Agreement, as previously amended, being referred to herein as the "Agreement"); and

WHEREAS, the Grantee and A.I.D. desire to further amend the agreement to obligate additional funds under the Agreement and to extend the Project Assistance Completion Date;

NOW THEREFORE, the parties hereto hereby agree that the agreement shall be further amended as follows:

Section 3.1 The Grant, is amended by, deleting the words and number "Six Million and Forty-Six Thousand United States ("U.S.") Dollars (\$6,046,000)" and substituting therefore the words and number "Eight Million Six Hundred Eighty Three Thousand Six Hundred and Forty" United States ("U.S.") Dollars (\$8,683,640)."

Annex 1 to the Agreement ("Amplified Project Description" including Attachment 1 thereto, the Project Financial Plan) is deleted in its entirety and a revised Annex 1 in the form attached hereto is substituted therefore.

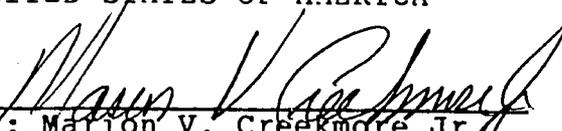
Except as amended herein, the Agreement between the Grantee and A.I.D. remains in full force and effect.

IN WITNESS WHEREOF, the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA and the UNITED STATES OF AMERICA, each acting through its respective fully authorized representative, have caused this amendment to be signed in their names and delivered as of the day and date first above written.

THE DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA


By: R. Paskaralingam
Title: Secretary,
Ministry of Finance

UNITED STATES OF AMERICA


By: Marion V. Creekmore Jr.
Title: American Ambassador


Richard M. Brown
Mission Director

PVO CO-FINANCING PROJECT II
AMPLIFIED PROJECT DESCRIPTION (REVISED)

1. Project Goal and Purpose

1.1. The goal of the Project is to foster full participation by all socio-economic, ethnic, religious and geographic population groups in the process of social and economic development.

1.2. The purpose of the Project is to enhance the performance of private voluntary organizations in launching sustainable development activities by improving access to and control over development resources by all population groups, especially the disadvantaged, and in strengthening the voice of such groups in democratic processes.

2. Project Activities

To accomplish its purpose and advance its goal, the amended PVO Co-Financing II Project will rely on a strategy incorporating the following activities:

2.1. A program of grants to PVOs carrying out development work in Sri Lanka. Provided on a cost-sharing (co-financing) basis with a PVO contribution of at least 25% of the total activity cost from non-USAID sources, these grants support programs that, in turn, promote sustainable development through broad-based, market-oriented productive activities. These grants may range from \$10,000 to \$750,000; based on the Project experience to date, the average grant size is expected to be below \$200,000. Grants exceeding \$750,000 will be made only in exceptional cases, based on established criteria and strong justification.

The total amount of Project funds allocated for PVO grants will be \$9,600,000.

2.2. Grants to one or more PVO consortia for the purposes of:

2.2.1. improving the consortia's member organizations' operational effectiveness through training and technical assistance;

2.2.2. making these member organizations more self-sustaining and reorienting them away from welfare-based activities to development-based activities;

2.2.3. serving as clearinghouses for information useful to member organizations in carrying out their development activities; and

- 2.2.4. enhancing outreach to, and support of, smaller, newer, less firmly-established and/or more locally-based PVOs than those normally reached directly by USAID (hereinafter referred to as "grass-roots organizations," or GROs).

A total of \$870,000 in Project funds will be set aside for consortium grants.

- 2.3. A special micro-grant program administered by the consortium or consortia and targeted at the GROs described under 2.2 above. These grants will be for less than \$10,000, and are expected to average less than \$5,000.

A total of \$300,000 will be set aside for GRO micro-grants.

- 2.4. Training courses, workshops and consultancies aimed at improving managerial effectiveness of PVOs, some of which will be implemented at least in part through the consortia described under 2.2 above, while additional courses and/or workshops may be carried out under independent auspices with the approval of USAID and the GSL.

A sum of \$250,000 in Project funds will be dedicated to management training and technical assistance.

- 2.5. Special Activities to promote open markets and an open society in Sri Lanka through the programs of private voluntary organizations.

While the Project as a whole seeks to promote open markets and an open society in Sri Lanka, a new Special Activities component will give particular emphasis to these themes by financing efforts to promote democratic pluralism and to address selected social problems. These Special Activities will be designed to respond to emerging issues and priorities, which are described in Sections 2.6 and 2.8, below. Target groups for these activities may include, but are not necessarily limited to: ethnic, racial or religious minorities; children and youth; women; and inhabitants of geographic regions where poverty and unemployment exceed the national average and/or where public and private investment in the last decade have been substantially below the national average.

This Project element may include special activities to promote human rights and harmony among different population groups, as well as activities in health, family planning and other social services aimed at alleviating problems experienced by victims of violence and those suffering from or at risk for sexually transmitted diseases and substance abuse.

It may be noted that this Amendment introduces family planning to the Project by rescinding the prohibition on financing family planning that was contained in the original Project Agreement.

The Project budget for Special Activities, which will be identified through studies and consultations, will be \$550,000. In addition, a portion of the budgets for Grants and Micro-Grants may be used to support PVO/GRO activities that address open markets/open society issues, and an additional budget of \$250,000 for Evaluation and Studies may address these topics as well.

2.6. Studies and Evaluations

2.6.1. A sub-element for Studies will permit examination of social, economic and political issues in Sri Lanka with a view to identifying activities appropriate for Project funding that are aimed at addressing these issues.

2.6.2. A sub-element for Evaluations will continue to fund evaluations of the Project itself and of grants awarded within the Project.

2.7. Contingency: A budget of \$179,640 is set aside for contingencies, including possible shifts into other activities when their budgets are found to be inadequate. To date, \$80,770 in contingency funds has been used to support a consortium grant (\$47,770) and management training within the consortium grant (\$33,000).

3. Planned Inputs

3.1. At least 50 sub-project grants will be awarded to PVOs, totalling \$9.6 million. Combined with PVO contributions of at least 25% of each sub-project's total cost, this will represent financial inputs totalling at least \$12,800,000. At the time of this Amendment, 27 grants have been awarded with a total value of \$4,629,062 in AID funds.

3.2. One grant has already been awarded to a PVO consortium, for a total value of \$580,770 in AID funds. One or more additional grants to consortia may be awarded out of a budget of \$870,000 for consortium grants, if it is determined that an additional grant or grants will further ensure delivery of an appropriate mix and level of services to all the population groups the Project seeks to reach.

3.3. Including the 13 micro-grants already awarded, at least 50 micro-grants will be awarded, through the PVO consortium or consortia, to GROs, out of the \$300,000 budget for this purpose.

3.4. Management training and technical assistance will be made available to all PVOs involved in the Project who seek such assistance. USAID, the PVO consortia and/or other management training institutions will actively encourage PVOs and GROs to take advantage of such training and technical assistance. To date, management training has been provided through the consortium grant.

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3.5. Funding for promotion of the open markets/open societies themes will be provided in part through the grants and micro-grants, in part through the training and technical assistance activities channeled through PVO consortia or independent organizations, in part through budget line items for Special Activities, and Evaluations and Studies. Further information about the issues to be covered under the Special Activities component may be found under Section 6.2. below.

4. Planned outputs or end-of-Project results

USAID expects that by the revised Project Activity Completion Date of August 31, 1995, the following results will have been produced:

4.1. Grants to PVOs will have resulted in measurable and sustainable improvement in the economic well-being of direct beneficiaries, achieved at reasonable cost, and in the performance of the grantee PVOs in providing assistance to their beneficiaries.

4.2. PVO consortia will have been substantially strengthened in their performance of providing services to member organizations and to other private voluntary organizations, especially GROs with previously-limited access to development resources, so that the consortia contribute, in turn, to strengthening those organizations.

4.3. Through micro-grants to GROs, channeled through the PVO consortia, measurable and sustainable improvement in the economic well-being of direct and indirect beneficiaries and in the capabilities of GROs will have been gained.

4.4. PVOs and GROs that have attended management training programs will have achieved observable improvements in their management practices.

4.5. The objectives of promoting open markets and an open society through private voluntary organizations will have been met to a substantial and measurable degree through Grants, Micro-Grants, Special Activities and Evaluations/Studies.

5. Indicators that the desired results will have been achieved

5.1. Measurable and sustainable improvement in the economic well-being of direct beneficiaries of PVO grants and GRO micro-grants:

Using ongoing monitoring and evaluation systems--including PVO grantees' regular reports to USAID, USAID staff site visits, and structured surveys--beneficiary impacts will be measured through the following indicators:

- 5.1.1. Number of beneficiaries who are newly or more fully employed or self-employed as a result of skills training received under Project-funded grants or micro-grants;
- 5.1.2. Average income gains received as a result of Project-based training or other assistance;
- 5.1.3. Evidence that beneficiaries have achieved greater access to and/or control over productive resources, including (but not limited to) financial resources such as production-related credit.

5.2. Cost-effectiveness and sustainability of beneficiary impacts:

USAID will develop specific indicators to measure the cost-effectiveness of the services provided to direct beneficiaries under PVO grants and GRO micro-grants. These indicators may include:

- 5.2.1. The cost per beneficiary of direct services;
- 5.2.2. The income and employment gains achieved per dollar spent; and
- 5.2.3. The repayment, cost recovery and recycling rates for credit programs, and the ratio of credit provided to direct income gains;
- 5.2.4. The degree of self-support achieved by the grantee organizations to sustain their activities beyond USAID's term of support.

Future grant applicants will be requested to indicate, in their proposals, the number of direct beneficiaries, the per capita cost of providing services to those beneficiaries, the number of jobs to be created and the average income gains expected to be received by beneficiaries as a result of the grant-funded activities. Existing grantees will be asked to make similar estimates on the basis of their ongoing programs. Additional measures of cost-effectiveness will be developed for grants and micro-grants involving credit programs.

5.3. Improved capabilities and performance of PVOs through consortium support

The assistance to PVO consortia is intended to build the capabilities of the consortia themselves and, indirectly, the performance of their affiliated member organizations. The Project's effectiveness in this regard will be assessed through annual review of such indicators as:

- 5.3.1. Growth in the number of organizations affiliated with the consortium;
- 5.3.2. Broadening of the composition of consortium membership and governing body (e.g. board of directors) to include PVOs working in a variety of sectors and/or serving previously unrepresented population groups;
- 5.3.3. Number of organizations trained by the consortium;
- 5.3.4. Increased use of consortium services by member PVOs, including training, technical and management assistance, micro-grants and other.

In addition to review of these indicators, the affiliated PVOs and GROs will be surveyed to determine their views of the value of the services provided by the consortia, and how they have benefitted from them in their own operations.

5.4. Responsiveness of PVO/GROs to Open Markets/Open Societies Issues.

- 5.4.1. Democratic Pluralism: The major measure of the Project's effectiveness in promoting democratic pluralism will be the statistics on organizations involved in the Project, and on their beneficiaries. When specific indicators are developed, USAID will track the participation of minority and disadvantaged population groups and geographic residents, as described above, and will seek to determine how such groups and individuals have been provided with increased opportunities to participate in key decisions relating to their own economic and social destinies.
- 5.4.2. Improvement of Selected Social Services Through PVO Activities: Indicators will also be developed to measure the impact of PVO/GRO grants and micro-grants and Special Activities designed to improve the provision of social services in health and family planning. As indicated above, the focus of these activities will be on mental health and other services aimed at victims of violence, and on education and treatment programs related to sexually-transmitted diseases (particularly AIDS) and substance abuse (drugs and alcohol).

6. Criteria for Selection of Grant Recipients

USAID will promulgate revised guidelines for PVO grant applicants within three months of signing this Amendment. The

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guidelines will describe the procedures to be followed by PVOs in applying for grant assistance under the Project, as well as the requirements that must be met by all PVOs to become registered with A.I.D. in Washington. It is anticipated that grant applications will be considered by USAID on a semi-annual basis. In addition to meeting minimum requirements applicable to all grant proposals (such as analysis demonstrating the feasibility of the proposed activity, evidence of ability to manage programs, existence of sound accounting practices, etc.), grant proposals will be evaluated in terms of the following priorities:

6.1. Open Markets

6.1.1. Employment and income generation potential.
Employment and income generation remain key objectives of the Project, and most grants awarded under the Project will contain employment and income generation components as either primary or secondary program elements. Each grant proposal should therefore indicate whether and how the proposed activity will assist its beneficiaries to find employment or create self-employment, and/or to increase their incomes. Examples of activities aimed at employment and income generation are:

- 6.1.1.1. skills training;
- 6.1.1.2. provision of credit for investment in productive activities;
- 6.1.1.3. job counseling and placement services;
- 6.1.1.4. technical assistance and/or training for entrepreneurs in areas related to the establishment or management of private enterprises, cooperatives, etc.

In describing the proposed activity, applicants should indicate the number of beneficiaries of such activities, the number of new jobs to be created, the expected incomes of the beneficiaries and the total cost per beneficiary of providing them with assistance.

Applicants should analyze, in their proposals, the labor, factor and product markets for the sectors on which they propose to focus employment and income-generating activities. Past experience under the Project indicates that certain sectors (e.g., poultry-raising, handlooms) are found in a large number of proposals. This fact gives rise to concern about the ultimate market potential for persons with skills in these areas and for the products they will produce, as well as the ability of producers to obtain the necessary inputs, and to produce at a cost and sell at a price that permits profitability and avoids dependence on subsidies, price controls, trade protection or restriction, or long-term assistance from government, donors or PVOs. Beneficiaries of vocational training should be assisted in obtaining skills for which job and product markets are found to be favorable, and in which competition and ease of entry exist without government

interference or distortion, reflecting USAID's priority of promoting open markets as the most efficient means of creating jobs and increasing incomes.

PVOs seeking assistance with income-generating projects should not propose to become long-term producers or employers themselves, but rather to assist private persons or groups to establish independent enterprises with only temporary assistance from the PVO concerned.

6.1.2. Efficient allocation of financial resources. Many PVOs propose grant-based activities that include provision of credit to beneficiaries. USAID supports the basic notion of providing beneficiaries with access to financial resources for productive purposes. However, extensive experiences with such efforts both in Sri Lanka and elsewhere indicate that many of them suffer from problems that unwittingly contribute to their ultimate failure by attempting to satisfy social goals at the expense of economic viability. Consequently, USAID will give priority to credit programs that are designed to be viable, self-sustaining and efficient. Such programs will generally include the following features:

6.1.2.1. Use of established financial intermediaries wherever possible. PVOs do not normally function primarily as financial institutions, and few possess a competitive advantage in this area. Wherever possible, therefore, PVOs should channel credit activities through established, community-based private financial institutions such as Thrift and Credit Cooperative Societies. Direct involvement in managing credit programs should only be undertaken by PVOs when there is no established institution capable of providing services to the target group, and when the PVO can demonstrate capability to appraise and manage the loans, including careful tracking of repayments. In such cases, quarterly reports to USAID--a normal requirement of PVO grants--should include information on the status of credit programs, including repayment rates.

statements for the Project, the Project aims to ensure that all population groups participate fully in the process of economic development and in the democratic processes that govern their lives. In practical terms, this means the Project will focus particularly on increasing the opportunities available to population groups that are economically or socially disadvantaged. Based on recent analysis of the situation and needs in Sri Lanka, such groups will include (but not necessarily be limited to):

- 6.2.1.1. ethnic, religious or cultural (including linguistic) minorities;
- 6.2.1.2. disadvantaged youth and children (including orphans);
- 6.2.1.3. women (including widows) and female children;
- 6.2.1.4. the elderly;
- 6.2.1.5. victims of violence, including civil strife, crime and family conflict;
- 6.2.1.6. residents of administrative Districts in which accepted indicators of poverty, unemployment and lack of economic opportunity (such as the percentage of the population receiving food stamps, the unemployment rate and statistics on public and private investment) reveal disadvantaged conditions.

Activities that target one or more of these population groups may include the employment and income generating activities described above as well as other activities aimed at meeting the special needs of the target beneficiaries. Such activities should aim generally at providing beneficiaries with equality of opportunity for employment and income; access to productive resources; and enjoyment of human rights such as freedom of expression, representation of interests in local, regional and national governmental and non-governmental fora, and due process of law. Inclusion of English language instruction as a program component is encouraged as a link among different population groups and as an avenue to increased employment and income-generating activities.

6.2.2. Efficient provision of social and health services to meet critical needs.

While the Project generally emphasizes enhanced

economic opportunity rather than welfare, USAID has identified certain social concerns and populations at risk that require attention, while offering opportunities for approaches that emphasize non-governmental, market-oriented solutions in which PVOs and GROs have an important role to play. In many cases, failure to resolve these problems could directly threaten individuals' abilities to be economically productive, and could impede national economic development as well. PVOs may wish to propose activities that address these concerns along with activities aimed at employment and income generation. These concerns include, but are not necessarily limited to:

- 6.2.2.1. abuse of chemical substances including drugs and alcohol;
- 6.2.2.2. AIDS and other sexually-transmitted diseases;
- 6.2.2.3. prostitution (male, female and child);
- 6.2.2.4. mental disorders, including suicidal conditions and disorders resulting from experience of personal, community, ethnic or national violence;
- 6.2.2.5. the need for access to family planning services.

These concerns all represent issues that have moved to the forefront of public attention in the last few years. The problems of AIDS and other sexually-transmitted diseases, as well as of prostitution, have remained at moderate levels in Sri Lanka in comparison with other countries, primarily because of the low levels of tourism and foreign contact during the years of political turmoil here; but as the nation recovers politically and economically it is apparent that these problems will require increased attention. Mental health services are generally considered to be seriously inadequate, with only 25 psychiatrists serving a population of almost 17 million persons in a country with an unusually high suicide rate and, in recent years, a high level of violence that has left no area untouched. And while family planning services are generally better and the birth rate lower than in most developing countries, both USAID and GSL resources to provide such services in the public sector have declined sharply and there is now a need to shift major responsibility to the private sector, including PVOs.

Program components dealing with these concerns might include education aimed at groups especially at risk; training of trainers to conduct such educational programs; and self-sustaining, fee-based services such as counseling,

short-term shelter, and assistance to at-risk groups in income-generation activities. They should not include subsidies.

7. Policies Governing the Micro-Grants Program

The micro-grants program or programs administered by one or more PVO consortia will incorporate the following policies and principles:

7.1. Target groups for assistance under the micro-grants program(s) funded under the project will be indigenous grass roots organizations (GROs) that operate on a local community level and promote equal opportunity by serving constituencies of economically and/or socially disadvantaged persons. Preference will be given to small and/or newly-formed organizations that cannot qualify for assistance under the regular grants component of the Project.

7.2. The maximum grant amount will be \$10,000, and proposals will be considered for projects up to and including this amount, where proposals provide justification. The average grant size is expected to be considerably lower than the maximum.

7.3. Projects with components aimed at income-generation will receive priority, but projects having or including other objectives, such as the social service objectives described in Section 4.6.2., above, will be funded as well when they are adequately justified.

7.4. Affiliation with PVO consortium: If the PVO consortium administering the micro-grants program requires formal affiliation with the consortium as a condition of eligibility for micro-grants, the consortium will review and act upon all applications for affiliation within 60 days of their receipt. GROs which require more time to meet the requirements of formal affiliation may be considered in the interim for micro-grants under a provisional affiliation status.

7.5. Attribution of USAID funding: Micro-grantees will be informed that funding for their grants is provided by USAID.

7.6. Periodic review of consortium criteria and procedures for reviewing micro-grant proposals will take place at least annually by USAID and the consortia. New criteria or procedures may be adopted by means of counter-signed letters.

8. Policies Governing the Special Activities and the Studies/Evaluations Components

These two components, which (with the exception of the Evaluations portion) are added to the Project by this Amendment, are intended to provide a means by which emerging social, economic and political issues can be more fully

addressed by the Project. Generally speaking, these activities will mirror the new emphasis on open markets and open societies that will be incorporated into the PVO grants programs, as described above in Sections 4.6.1. and 4.6.2.

Specific activities and studies to be undertaken under these components will be jointly agreed by USAID and the Government in each instance by a counter-signed Project Implementation Letter (PIL) or a Project Implementation Order/Technical (PIO/T). Examples of such activities are given below for illustrative purposes only, since no specific funding decisions have been taken regarding these components:

8.1. Studies or surveys analyzing particular issues or problems that might be addressed under the Project through PVO programs. Such studies or surveys could be funded from the Studies/Evaluations component of the Project. For example, an assessment of PVO activities in the field of substance abuse, and development of options for USAID-funded assistance, might be undertaken. Similarly, a review of the impact and effectiveness of PVO-sponsored credit programs could be initiated with a view toward further development of policies governing such programs when funded under the Project.

8.2. Seminars, conferences or special training programs. A conference on how PVOs can assist children orphaned by ethnic or political violence, a seminar on how to improve communication with disadvantaged youth, a training program for PVO-based mental health workers helping children cope with violence, and a workshop on dissemination of AIDS-related educational materials by PVOs and/or GROs are additional examples of Special Activities that could be undertaken.

8.3. Technical assistance consultancies to PVOs. Funds from the Special Activities component could also be used to provide technical assistance to PVOs to help them develop programs aimed at promoting open societies and open markets, including democratic pluralism and private provision of social services.

9. Rationale for Support to Additional PVO Consortia

The Project has already extended grant support to one PVO Consortium, the Central Council for Social Services (CCSS), to serve as an "umbrella" organization of affiliated PVOs and provide its member organizations with services and assistance aimed at strengthening their programs and operations. While the CCSS program was slow getting underway, recent reports of its activities in providing services to member-PVOs and administering the micro-grants program have indicated that the program is now moving along well. However, it appears that outreach to some segments of the population may be best served by engaging the efforts of one or more additional PVO consortia. Specifically, it appears that a separate consortium of PVOs in the North-East Province may be the best means of reaching organizations in that area. Similarly, it may be

useful to support one or more consortium organizations that represent PVOs in particular sectors rather than specific geographic areas. In the event that additional grants to support PVO consortia are proposed, USAID and the Government will agree to the grant or grants by action of the joint grant proposal review committee.

10. Financial Plan

A revised financial plan is included as Attachment 1 to this Annex. The terms and conditions pertaining to the financial plan, as contained in the original Agreement, remain in effect.

PVO CO – FINANCING II

PROJECT FINANCIAL PLAN (Source & Application of funding – \$000)

	AID CUMULATIVE OBLIGATIONS* AS PER AMENDMENT NO: 4		GSL	PVO		TOTAL
	FX	LC	LC	FX	LC	
1. Sub-Project Grants	755	6,029	105	230	3,228	10,347
2. Micro Grants	10	210	-	-	65	285
3. Strengthening PVO Association	174	276	-	-	40	490
4. Manangement Training	162	88	10	-	40	300
5. Evaluation / Studies	80	170	-	-	-	250
6. Special Activities	137	413				550
7. Contingency	67	112 +	10	50	300	539
Total	1,385	7,298	125	280	3,673	12,761

* \$8,683,640 has been obligated and made available through the Project Grant Agreement, including this Amendment.

+ The correct total for line item 7, Contingency AID Local Currency, is \$112,640.