

PD-ABT-279  
87/2

A.I.D. Project Number 383-0100

AMENDMENT NUMBER FOUR  
TO THE  
GRANT AGREEMENT  
BETWEEN  
THE UNITED STATES OF AMERICA  
AND  
THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA  
FOR  
PRIVATE SECTOR POLICY SUPPORT

Date: June 30, 1992

PROJECT AGREEMENT AMENDMENT

AMENDMENT NUMBER 4, dated June 30, 1992, 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 Private Sector Policy Support Project Grant Agreement, dated July 29, 1988, as amended by Amendment No. 1 of March 29, 1989, Amendment No. 2 of June 8, 1990 and Amendment No. 3 of December 2, 1991 ("Agreement"); and

WHEREAS, the Grantee and A.I.D. desire to further amend the Agreement to reflect an increase in the A.I.D. contribution to the Agreement;

NOW THEREFORE, the parties hereby agree that the Agreement shall be amended to read as follows:

1. Section 3.1 entitled "The Grant" is amended by deleting the words and number "Twelve Million Six Hundred and Forty-Four Thousand United States ("U.S.") Dollars (\$12,644,000)" and substituting therefor the words and number "Fifteen Million Seven Hundred and Seventy Four Thousand United States ("U.S.") Dollars (\$15,774,000)".

2. Section 3.2 entitled "Grantee Resources for the Project" is amended by deleting the number "U.S.\$13,945,000" and substituting therefor "U.S.\$15,581,000".

3. Section 3.3 entitled "Project Assistance Completion Date", is amended by deleting the date "July 31, 1993" and substituting therefor "July 31, 1996".

4. Section 4.2 entitled "Additional Disbursement" is amended to include the following:

(3) Prior to further incremental contributions to the Project by A.I.D., 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., evidence that:

(a) a user tax ("cess") has been instituted on equity securities being exchanged in the secondary market, which tax is expected to meet the operating costs of the Securities and Exchange Commission (SEC); and

(b) the SEC has hired at least two senior staff members responsible for market regulation and financial reporting.

5. Section 4.3 entitled "Notification" is amended to include the following:

When A.I.D. determines that the conditions precedent specified in Section 4.2 have been met, it will promptly notify the Grantee.

6. Section 4.4 entitled "Terminal Dates for Conditions Precedent" is amended to include the following:

If all of the conditions specified in Section 4.2 have not been met within 120 days of the date of this Amendment, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee.

7. Article 5 entitled "Special Covenants" is amended to include the following:

SECTION 5.3. Annual Consultation. The SEC will consult annually with A.I.D. about SEC funding for the continued monitoring of financial reporting and standards development for quoted public companies by the ICASL.

SECTION 5.4. ICASL. The Grantee will ensure that the Institute of Chartered Accountants of Sri Lanka (ICASL) has (a) formed accounting standards, audit standards and compliance committees; and (b) formally invited CSE and SEC representatives to be ex-officio members of its compliance committee.

SECTION 5.5. CDC. The Grantee will ensure that the Central Depository Company Board of Directors has formally invited the A.I.D. Project Officer to attend all of its meetings until the end of the Project.

8. The Amplied Project Description (ANNEX 1 to the Agreement) is deleted in its entirety and replaced by the Revised Amplied Project Description in Annex 1 hereto.

9. Section B.5 entitled "Reports, Records, Inspections, Audit" in Annex 2 to the Agreement is deleted in its entirety and the language in Annex 2 hereto substituted therefor.

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 duly authorized representative, have caused this Amendment to be signed in their names and delivered as of the day and date first above written.

GOVERNMENT OF THE DEMOCRATIC  
SOCIALIST REPUBLIC OF SRI LANKA

GOVERNMENT OF THE  
UNITED STATES OF AMERICA

By: \_\_\_\_\_  
Name: S.L. Kuruppu  
Title: Director of External  
Resources  
Ministry of Finance

By:   
Name: Richard M. Brown  
Title: Mission Director

**Private Sector Policy Support  
Revised Amplified Project Description**

**I. General Project Description**

The goal of the project is to assist the Government of Sri Lanka (GSL) to increase national employment and incomes by the creation of a policy environment conducive to private sector growth. The purpose of the project is threefold: (a) to strengthen the contribution of the private sector to the formulation, appraisal and implementation of market oriented economic policies, (b) to contribute to the successful privatization of a significant number of state-owned enterprises to a broad spectrum of private investors, and (c) to develop the capacity of the Sri Lankan capital market to broaden public equity participation in the economy and increase capital resources for investment.

**A. Policy Analysis**

The project will provide assistance to an estimated 15-20 private sector chambers and organizations ( PSOs ). Assistance will be made on the basis of proposals submitted by participating PSOs which are relevant to the PSOs, and the conduct of which should strengthen the institutional capacities of the PSOs. A mix of technical assistance, training, seminars and limited equipment procurement will be provided as appropriate. A PSO receiving assistance must demonstrate its financial capacity to account for funds, as well as a contribution of its own resources, in cash and in-kind, towards the activity.

The project will also fund workshops and seminars which may include members of the PSO community not receiving specific grants under the project. The assistance program will be managed by project-funded technical assistance provided under a Cooperative Agreement with the University of Maryland.

The end-of-project status for the policy analysis component is expected to be:

- an enhanced capacity of individual PSOs and the PSO community as a whole to participate effectively in influencing business and economic policy;
- an accompanying enhanced credibility of PSOs on the part of the government and the public;
- the private sector's ability to engage in dialogue will have been strengthened, characterized by objective analysis and decision-making on the merits of the issues and options discussed;
- PSOs will be contributing in more active and substantive ways in shaping the sectoral and national economic development plans and agendas for the country.

B. Privatization Support

Funds are provided under the project for technical and financial assistance to the Commercialisation of Public Enterprises Division (COPEP) of the Ministry of Finance to plan and implement the privatization program over the life of the project.

COPEP is implementing a program to advance the GSL's economic reform and industrial policy agenda by the privatization of ~~state-owned-enterprises~~ (SOE's) across a broad spectrum of sectors including industry, trade, finance, agriculture and services. Its plan for privatization includes a medium-term program to privatize 24 SOEs prior to July 1993. The project provides funds for technical assistance, both long and short-term, to the COPEP to assist in planning, preparing and executing privatization actions. Such assistance may include funding for analyses of a range of privatization actions such as private management schemes, opening of government-dominated sectors to private sector competition, management of capital restructuring requirements, as well as divestiture.

Funds are made available under the project for expenses related to the preparation of companies for divestiture. Such funds will be made available if the plan demonstrates the intent to divest the SOE. Preparation expenses may include, inter alia, independent accounting audits, legal formation of the new company, and advertising of the public offering. Project funds may be used for advisory services of share brokers but the GSL will pay for commission fees or other charges paid to brokers.

The project also provides funds for other expenses of divestiture after the divestiture has occurred. These include: severance payments for redundant employees of firms which have been divested, management services to newly-divested firms, and worker training programs for the new company. For the purposes of the project, divestiture is defined as transfer to the private sector of at least 51% of the shares in addition to further evidence that actual control of the divested company will pass to private owners, and that the GSL will not retain indirect control through controls over raw material supplies or markets, or through other means. If only part of an SOE is to be divested, there must be evidence that the remainder of the SOE will not exercise any direct or indirect control over the new company.

The project provides funds for public education and publicity campaigns of the COPED concerning privatization. Funds are also provided for limited purchases of office equipment and furniture for the COPED, and one vehicle for the project.

It is anticipated that the end-of-project status for the privatization component will be:

- the private sector will be contributing to greater efficiency and productivity in the national economy;
- the public at large will have an enhanced and positive appreciation of the relative roles of the government and the private sector in owning/managing productive enterprises, and the advantages of well-planned privatizations;
- a greater number of Sri Lankan citizens will own shares in the privatized SOEs;
- the private business sector will be more assured in regard to policy on government vs. private sector roles in various economic sectors, leading to greater private sector confidence in making long-term investment; and
- the process of planning and carrying out the privatization of SOEs will have become well understood through experience, including an institutional capacity within the GSL to continue privatization.

### C. Capital Markets

The capital markets project component will address the need for measures to facilitate the growth of capital markets in general and the securities market in particular. The project activities will be in two distinct phases; the first of which would be for a period of 57 months, and the second for a further period of 33 months.

## 1. PHASE I

During the first phase, the project will fund technical assistance to the Securities Council to assist in its capital market development and oversight functions, and to the Colombo Securities Exchange to assist in modernizing its operations. One long-term advisor is planned for each institution with additional short-term assistance as needed.

Funds will be provided for the production and distribution of materials designed to increase the familiarity of the public with the operations and functions of the securities exchange and capital market. The project provides funds for a public education program which includes television documentaries and a press campaign.

The project will fund limited commodities for both the Council and the Exchange. A computer system is expected to be provided to the Exchange to automate the trade recording, reporting and the planned Central Depository System (CDS). Purchase of communications equipment is also anticipated. The Securities Council will receive limited commodities, including a microcomputer, for the office of the Director General.

The project will fund familiarization and consultation travel for Council and Exchange managers to securities exchanges in other countries in the region, as well as travel to professional conferences.

During the first phase of this component, the project also provides funds for ~~technical assistance to and operational support to Equity Investments Lanka Ltd.~~ (EQUILL) a pioneer, Sri Lankan private sector Venture Capital Company (VCC). It is anticipated that EQUILL will introduce a new type of financial institution which will increase the availability of equity capital for private sector investment, and provide management expertise for the projects in which it invests.

Project funds for the VCC may be used for capital equipment costs, a contribution toward initial operating costs, limited technical assistance, training and promotional costs.

Funds for the VCC will not be made available until the VCC has been incorporated, a minimum of Rs. 30 million in initial capital has been paid in by the company sponsors, and the managing director of the VCC has been hired. In addition, the VCC will be required to present a business plan acceptable to A.I.D. which details steps to be taken to achieve broad-based ownership of the VCC, including employee stock options, limitations on GSL participation, criteria for investment which will give preference to new enterprises and innovative activities, and a clear policy and procedures for exit from investments.

After two years of project support, the VCC must demonstrate that its capital base has reached at least Rs.100 million in order to receive continued project support.

By the end of the first phase of the project the status for the capital markets component is expected to be:

- the regulatory climate of publicly-traded shares will inspire confidence among investors and the public at large;
- increased mobilization of funds will result in greater equity investment in private productive enterprises;
- the ownership of equity instruments will become more broadly based;
- new methods of financing will be developed through the Colombo Securities Exchange;
- the venture capital company will have stimulated the formation or expansion of new and innovative enterprises.

## 2. PHASE II

During the final 33 months, the second phase will undertake a series of activities building on achievements of the first. These will include the following:

- a. Improve the reliability of market information by further expanding the Securities and Exchange Commission of Sri Lanka (SEC,SL) and the Colombo Stock Exchange (CSE) capacity to serve a rapidly growing capital market. These will be achieved by the following activities:

- (i) Regulation and Self Regulation

The second phase will assist the staff of SEC,SL to respond to the new regulatory obligations arising from a rapidly growing market and CSE's efforts at self-regulation to meet a wide variety of market risks. A.I.D. will provide technical assistance and on-the-job and overseas training tours to the regulatory personnel of the two institutions to assist them to implement a series of recommendations arising from earlier reports.

By the end of the project period SEC,SL will be fully functional, staffed by trained personnel, effectively supervising a market that encompasses listed securities -- both in the main-board and a second-tier market -- including both equities and debt, and several new financial intermediaries such as unit trusts. The CSE will have an effective self-regulatory unit in-place, addressing a wide range of market risks.

(ii) Financial Reporting

A.I.D. will provide for reforms in accounting standards setting, standards implementation, and monitoring of financial reporting. The program will establish a linkage between the users and the providers of financial information, through the intermediation of SEC,SL and the CSE. The program will provide technical assistance, in-country training and a program of grants to stimulate and develop in-country research on standard setting, training on standards and their implementation for members and student accountants of the Institute of Chartered Accountants of Sri Lanka (ICASL), and establish a mechanism for monitoring compliance of these standards by the listed companies.

By the end of the project period, ICASL will have the capacity to respond to market needs as anticipated by the SEC,SL and CSE for improved financial reporting. ICASL will have developed linkages with the research community, and have established a core staff of specialists to overlook standards setting, monitoring and compliance. The existing members of ICASL will have been exposed to the new standards, and the private accounting training institute will have enhanced tools for the teaching of accounting and auditing standards to students.

(iii) Post Trade Automation System (PTA)

The second phase will further enhance the Post Trade Automation and the Central Depository System (PTA/CDS). A.I.D. will provide commodities for a back-up system to improve systems reliability, and technical assistance for systems management, systems audit and review and investigation of alternative "products" to be launched by the PTA/CDS. The assistance will include overseas training for the CSE systems personnel.

By the end of the project period, CSE will have a more reliable PTA/CDS system, with better response time, less down time and a reduced error rate. The system will be poised to offer new information services to the market, and the staff will be adequately trained to manage the system. The CDS will be continue as a financially viable going-concern.

b. Increase the availability of financial instruments by the following activities:

(i) Development of a Second-Tier Market

The second phase will assist the SEC,SL and the CSE to establish a second-tier market and enhance the capacity of the existing PTA/CDS to link the brokers and broker/dealers to facilitate screen-based trading. USAID will provide technical assistance to establish a second-tier market, program coding of the CDS and a series of in-country training programs for private sector market intermediaries, and short-term overseas placement in U.S. institution for both the traders and the regulators.

The Government of Sri Lanka will initiate the necessary enabling regulation to implement the second-tier market.

By the end of the project period, a second tier market will be established and functioning using electronic trading. Financial intermediaries will be working together with companies to access the market for capital. Venture capital companies will be exiting investments using the second-tier market. There will be an increase in the supply of available securities.

(ii) Development of a market for Quoted Debt Securities

The second phase will provide assistance to develop a secondary market in Treasury Bills issued by the Government of Sri Lanka. A.I.D. will finance technical assistance to implement a screen based trading system for bonds, and provide funding for in-country training seminars in bond trading. Related short courses will also be provided for portfolio investors to utilize bonds as a part of their portfolio. Additionally, the project will finance overseas tours for Central Bank officials in the areas of public debt and open market operations to observe regulation and oversight activity in a developed market which utilizes screen based trading. A display terminal will also be provided to the Central Bank officials to observe market performance on a real-time basis.

With the establishment of an effective secondary market in short-term bills, the Government will consider establishing a secondary market in longer term government securities.

By the end of the project period, a secondary market in Government Securities will be established and functioning with participation by both the general public and institutions. Several corporate debentures will also be quoted in the market.

- c. Assist the development of new forms of financial intermediation in the capital market by enhancing the analytic capability of market participants by the following activities;

- (i) Certification of Securities Markets Professionals

The program will launch, establish and gain official recognition of the widely recognized certification of The Institute of Chartered Financial Analysts (ICFA), an autonomous professional self-regulatory organization based in the U.S. Their program is aimed at training securities analysts and portfolio managers in both the brokerage firms and institutional investors. A.I.D. will sponsor approximately 45 students per year for the CFA program during the initial two years of the project. The program will meet the costs of registration, fees, examinations and books. In addition USAID will also meet costs of promotion of the CFA program, the one time costs of reference material that will be presented to the Securities and Exchange Commission's library, costs of short-term trainers (both expatriate and local) and development of teaching tools. A.I.D. will also fund a long term-trainer who will co-ordinate this and other training programs.

The Government will take the necessary steps to create the enabling environment for the establishment of this certification program including formal recognition of the program by the SEC,SL.

By the end of the project period, the CFA program will be a well recognized credential for professionals in the securities industry in Sri Lanka. The market will have at least 60 qualified professionals who will be active in a variety of financial market activities. There will be at least 40 other privately funded students at various stages of obtaining certification and the training institutes will be servicing the needs of these students effectively.

(ii) Assistance to Emerging Financial Institutions

The project will provide technical assistance and in-country training for emerging financial institutions which may include unit trusts, insurance companies, pension funds, venture capital companies, investment banks and brokers that are becoming active in new market segments. Assistance will be based on proposals for such services developed by the respective institutions. These proposals will be evaluated on the basis of their contribution to the overall project purpose.

By the end of the project period, there will be new institutions -- such as Unit Trusts, Insurance Companies, Retirement Funds, Venture Capital Companies and Merchant Banks -- active in new market segments. Existing institutions such as the brokers and commercial banks will also be active in those new market segments.

**II. Responsibilities of the Parties**

A.I.D. will enter into a cooperative agreement with the University of Maryland, to manage the policy analysis component. Logistical support for the University will be project-funded. The cooperative agreement recipient (called the policy support unit ) will solicit proposals from and make subgrants to PSO's; A.I.D. however may make grants to PSO's directly to the establishment of the policy support unit. PSO's which receive grants under the project will make local currency procurements pursuant to A.I.D. regulations. The policy support unit will arrange for and provide expatriate short-term technical assistance and arrange for overseas training. It is anticipated that such training will be funded under the cooperative agreement.

A.I.D. will enter into a direct contract for technical assistance for the COPED. The long-term technical assistance advisor provided under the contract will be responsible for working directly with COPED to identify appropriate short-term specialists and to supply their services.

A.I.D. will enter into two separate contracts to implement the two phases of the assistance to develop the Capital Markets. The contractors will be responsible for providing long-term and short-term consultants, overseas and local training, study tours, equipment and services related to the public education campaign and the certification programs.

A.I.D. will enter into a direct contract to provide automated data processing equipment to the CDS during the second phase of the Capital Markets development program.

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A.I.D. will enter into a Cooperative Agreement with the ICASL, to manage a program of sub-grants to conduct research and analysis of accounting standards.

A.I.D. will enter into a cooperative agreement with Equity Investments Lanka Ltd. (EQUILL), a private sector venture capital company.

The GSL will fund the recurrent operating costs of the COPED and the Securities and Exchange Commission, Sri Lanka. In calculating the contribution of the GSL to the privatization effort, costs such as preparation expenses, securities sales commissions, and severance and gratuity payments will be eligible even though some or all of these payments are made by the SOEs. The GSL will also provide office space for the project-funded technical assistance advisor at the office of the Securities Council.

Prior to the mobilization of the Chief-of-Party and the training specialist funded by A.I.D. technical support program for the second phase of the Capital Markets development program, the GSL will ensure that a user tax ("cess") on equity securities being transacted in the secondary market, which is adequate to meet the costs of the Securities and Exchange Commission (SEC,SL) operations, is in place.

The Government of Sri Lanka will also ensure that the SEC,SL senior staff members responsible for market regulation and financial reporting are recruited and in place prior to the mobilization of the technical assistance specialist on regulation. In addition, the Government will take all reasonable steps to hire and maintain an adequate staff cadre to discharge its regulatory functions.

The GSL, through its regulatory body, the SEC,SL, will ~~consider using a portion of~~ the funds raised by the "cess" on traded securities to finance the continued monitoring of financial reporting and standards development for quoted public companies by the Institute of Chartered Accountants of Sri Lanka.

The Government will also provide office space for the project-funded technical assistance contractors at the SEC,SL.

### **III. Illustrative Financial Plan**

The financial plan, attached to this Amplified Project Description as Attachment 1, is illustrative. Changes may be made to the plan by representatives of the parties named in the text of the Agreement without formal amendment to the Agreement if 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 in writing. Future A.I.D. obligations are subject to the availability of funds and mutual agreement of parties to proceed.

**IV. Financing Method**

Either reimbursement or an advance account for project funds may be used by the COPED for procurements of equipment, goods and services, other than the technical assistance contract.

Costs incurred by the COPED in the preparation of SOEs for divestiture will be reimbursed. Severance payments funded under the privatization component will be funded on a reimbursement basis but only following divestiture of the SOE, even though such costs may have been incurred prior to divestiture.

A.I.D. will make direct payments to the technical assistance contractors, commodity procurement contractors and cooperative agreement recipients on receipt of appropriate documentation.

**V. Evaluation**

Three evaluations are scheduled. The first evaluation was completed in December 1991. The second evaluation scheduled for June 1993 will be a review of progress since signing of the agreements and will focus on factors which have come to light or conditions that have changed, and recommendations and other forms of guidance for project management. The final evaluation will be scheduled near the end of the project. The focus of this final evaluation will be on (1) the project's achievement of its purposes, (2) identification of significant successes and failures and the factors which contributed to them, and (3) identification of the next steps (if any) that A.I.D. and host country institutions should take to consolidate gains made during the life of the project. At the beginning of the project, a management information system will be installed to track progress and provide periodic reports, and to facilitate the two evaluations.

**F. Special Considerations**

The vehicle and office equipment funded under the project for the use of the Policy Support Unit will be transferred to the GSL at the end of the project.

Title to equipment provided to the PSOs under the sub-grants will be retained by each PSO at the end of the project.

The Colombo Stock Exchange (CSE) will have title to equipment provided under the project, including the CDS.

EQUILL will have title to all office equipment provided under the project.

The ICASL will have title to the equipment provided to it under the Cooperative Grant to the ICASL.

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## PRIVATE SECTOR POLICY SUPPORT

PROJECT FINANCIAL PLAN

(Source and Application of Funding - \$000s)

PROJECT INPUTS	A I D T O T A L						
	Cumulative Oblig.	Add'l Oblig., Amendment No.4 FY 1992	Future Years Anticipated*	AID	GSL**	OTHER***	PROJECT
1. Policy Support	2,100	846	-	2,946	-	350	3,296
2. Privatization Support	7,450	1,266	-	8,716	13,720	-	22,436
3. Capital Markets Development	2,514	924	5,476	8,914	1,861	679	11,454
4. Venture Capital Company	400	44	-	444	-	3,333	3,777
5. Monitoring & Evaluation	180	50	125	355	-	-	355
6. Contingency & Inflation	-	-	625	625	-	-	625
<b>TOTAL</b>	<b>12,644</b>	<b>3,130</b>	<b>6,226</b>	<b>22,000</b>	<b>15,581</b>	<b>4,362</b>	<b>41,943</b>

\* All future obligations are subject to the availability of funds and the mutual agreement of the Parties to proceed.

\*\* The GSL total includes in kind contribution and staff salaries.

The GSL contribution for this project is based on an exchange rate of Rs.40.00 to US \$1.00.

\*\*\* Contributions anticipated from the private sector in Sri Lanka.

### **Section B.5 Reports, Accounting Records, Audits, Inspections**

- (a) The Grantee shall furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request.
- (b) The Grantee shall maintain accounting books, records, documents, and other evidence relating to the Project and to this Agreement, adequate to show, without limitation, all costs incurred under the Grant, the receipt and use of goods and services acquired under the Grant, the costs of the Project supplied from other sources, the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion ("Project Books and Records"). At the Grantee's option, with approval by A.I.D., Project Books and Records shall be maintained in accordance with one of the following methods: (1) generally accepted accounting principles prevailing in the United States, (2) generally accepted accounting principles prevailing in the country of the Grantee, (3) accounting principles prescribed by the International Accounting Standards Committee (an affiliate of the International Federation of Accountants), or (4) such other accounting principles as the Parties may agree to in writing. Project Books and Records shall be maintained for at least three years after the date of last disbursement by A.I.D.
- (c) If US\$25,000 or more is disbursed directly to the Grantee in any one calendar year under the Grant, the Grantee, except as the Parties may otherwise agree in writing, shall have financial audits made of the funds disbursed to the Grantee under the Grant in accordance with the following terms:
  - (1) The Grantee shall select an independent auditor in accordance with the "Guidelines For Financial Audits Contracted by Foreign Recipients" issued by the A.I.D. Inspector General ("Guidelines"), and the audits shall be performed in accordance with the "Guidelines".
  - (2) An audit of the funds provided under the Grant shall be conducted for each fiscal year of the Grantee. The audit shall determine whether the receipt and expenditure of the funds provided under the Grant 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 one year after the close of the Grantee's fiscal year.

- (d) The Grantee shall submit an audit report to A.I.D. within 30 days after completion of each audit arranged for by the Grantee in accordance with this Section. The A.I.D. Inspector General will review each report to determine whether it complies with the audit requirements of this Agreement. Subject to A.I.D. approval, costs of audits performed in accordance with the terms of this Section may be charged to the Grant. In case of continued inability or unwillingness to have an audit performed in accordance with the terms of this Section, A.I.D. will consider appropriate sanctions which include suspension of all or a portion of disbursements until the audit is satisfactorily completed or A.I.D. performs its own audit.
- (e) The Grantee shall submit to A.I.D., in form and substance satisfactory to A.I.D., a plan by which the Grantee will ensure that funds made available to subrecipients that receive US\$25,000 or more in any one calendar year under the Grant are audited in accordance with this Agreement. The plan should describe the methodology to be used by the Grantee to satisfy its audit responsibilities with respect to any subrecipient to which this Section applies. Such audit responsibilities with respect to subrecipients may be satisfied by relying on independent audits of the subrecipients or on appropriate procedures performed by the internal audit or program staff of the Grantee, by expanding the scope of the independent financial audit of the Grantee to encompass testing of subrecipients accounts, or by a combination of these procedures. The plan should identify the funds made available to subrecipients that will be covered by audits conducted in accordance with other audit provisions that would satisfy the Grantee's audit responsibilities (a non-profit 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 A.I.D. is audited by the cognizant U.S. Government Agency; a private voluntary organization organized outside the United States with a direct grant from A.I.D. is required to arrange for its own audits; and a host-country contractor should be audited by the cognizant Grantee Contracting Agency). The Grantee shall ensure that appropriate corrective actions are taken on the recommendations contained in the subrecipients' audit reports; consider whether subrecipients' audits necessitate adjustment of its own records; and require each subrecipient to permit independent auditors to have access to records and financial statements as necessary.
- (f) A.I.D. may, at its discretion, perform the audits required under this Agreement on behalf of the Grantee by utilizing funds under the Grant or other resources available to A.I.D. for this purpose. The Grantee shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to audit or inspect the Project, the utilization of goods and services financed by A.I.D., and books, records and other documents relating to the Project and the Grant.