

A.I.D. Project Number 383-HG-001

IMPLEMENTATION AGREEMENT
BETWEEN
THE DEMOCRATIC SOCIALIST REPUBLIC OF
SRI LANKA
AND
THE UNITED STATES OF AMERICA
FOR
LOW INCOME HOUSING PROGRAM PHASE I

Dated: August 24, 1981

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IMPLEMENTATION AGREEMENT

Implementation Agreement ("Agreement"), dated as of August 24, 1981 between the Democratic Socialist Republic of Sri Lanka ("GSL"), and the United States of America, acting through the Agency for International Development ("A.I.D.").

ARTICLE I

THE AGREEMENT

Section 1.01. Background and Purpose. Reference is made to a series of related agreements, to be entered into in the future, whereunder Borrower shall agree to borrow a sum as specified in Article III from a private U.S. lender or lenders ("Investor"), A.I.D. shall agree to guaranty Borrower's repayment obligations to Investor, and the Borrower, The Democratic Socialist Republic of Sri Lanka shall agree to reimburse A.I.D. for any losses that A.I.D. may incur by virtue of the A.I.D. guaranty to Investor. These agreements are called, respectively the "Loan Agreement", the "Contract of Guaranty", and "Sri Lanka Guaranty Agreement", and, together with certain fiscal agency agreements relating to the transfer of funds and escrow agreements, if any, are designed to facilitate the financing of the program described below ("Program"). The purpose of this Implementation Agreement is to set forth the understandings between Borrower and A.I.D. with respect to the Program.

Section 1.02. Definitions. The terms used herein shall have the same meaning as in the Loan Agreement any fiscal agency or escrow agreements, the Contract of Guaranty, and Sri Lanka Guaranty Agreement, unless otherwise defined herein.

ARTICLE II

THE PROGRAM

Section 2.01. Program Description. The Program, which is further described below and in Annex A attached hereto, will consist of activities to assist the production of shelter and related community services and facilities for lower income beneficiaries in rural and urban areas of Sri Lanka and activities to strengthen the capacity of the Ministry of Local Government, Housing and Construction (MLGHC) to design, administer, and finance affordable shelter projects for such lower income beneficiaries. This Program is Phase I of a multi-year program. Within the limits of the description of the Program in this Section, details of the Project as set forth in Annex A may be changed by written agreement pursuant to the procedure set forth in Section 7.01.

Section 2.02. Program Components. The Program shall consist of three components:

- A. Aided Self Help (ASH) involving building material loans made to lower income beneficiaries;
- B. Slum and Shanty upgrading; and,
- C. Technical Assistance, Training and Studies.

Section 2.03. Program Continuation. It is the intention of A.I.D. to continue to support the low income shelter sector in Sri Lanka after the completion of Phase I activities with additional loan guaranties totaling seventy-five million dollars (\$75,000,000). Such additional support, however, shall be contingent upon the satisfaction of the parties that the mutually agreed goals of the Program as set forth herein and in Annex A are being met, and upon the availability of additional A.I.D.

housing guaranties and loans from private U.S. lender

ARTICLE III

FINANCING

Section 3.01. The A.I.D. - Guarantied Loan. To assist Borrower in meeting the costs of carrying out the Program, A.I.D. will make available the following:

- A. The A.I.D. Guaranty. Borrower will borrow up to twenty-five million United States Dollars (\$25,000,000) from Investor. A.I.D. will guaranty to Investor the repayment of the Loan and all outstanding interest thereon by Borrower. The selection of Investor and the terms and conditions of the Loan Agreement, including any amendment thereto, are subject to approval by A.I.D.
- B. Additional A.I.D. Resources. Throughout the life of the Program it is the intention of A.I.D., subject to the availability of funds and the mutual agreement of the Parties on the progress and needs of the Program, to make available from time to time grant funds in the approximate amount of nine hundred seventy-five thousand dollars (\$975,000) to finance training, technical assistance, and studies to assist the Program. The sums to be made available shall be in an amount to be determined solely by A.I.D. and shall be made available upon such terms and conditions as may be mutually agreed.

Section 3.02. Borrower Resources for the Program. Borrower agrees to provide or cause to be provided for the Program, in addition to the Loan, all other funds and all other resources required to carry out the Program effectively and in a timely manner. It is understood that such contribution to the entire Program will not be less than a sum equal to twenty-five percent (25%) of the grant funded portion of the Program.

Section 3.03. Final Disbursement Date.

- A. The Final Disbursement Date is the date specified in the Loan Agreement for the final disbursement of the Loan.
- B. After the Final Disbursement Date and except as A.I.D. may otherwise agree in writing, A.I.D. will not guaranty additional borrowings under the Loan Agreement.

Section 3.04. Loan Renegotiation or refinancing. A.I.D. will use its best efforts to extend the benefits of the guaranty to the results of the loan as renegotiated or refinanced upon such terms as may be mutually agreed upon so long as the maximum term does not exceed thirty (30) years from the date of the first disbursement under the original loan and so long as A.I.D. has appropriate statutory authority to so act when requested.

ARTICLE IV
PAYING AND TRANSFER AGENCY AGREEMENT, FEES AND PAYMENT

Section 4.01. Paying and Transfer Agency Agreement. Borrower understands that, as a condition to participating in the A.I.D. Housing Guaranty Program and Receiving the A.I.D. Guaranty for the Loan, that all Borrowers must sign the Paying and Transfer Agency Agreement in the form set forth in annexes hereto, and Borrower agrees to sign such Agreement. The Paying and Transfer Agency Agreement provides Borrower with the services of the Pigg National Bank of Washington, D.C. which will act as Borrower's Agent in distributing

Borrower's payments on its promissory notes to holders of the Notes, in transmitting periodic A.I.D. fee payments, and in otherwise providing for the servicing of the Notes.

Section 4.02. Payment of A.I.D.Fees. Borrower shall pay to A.I.D. the following fees:

- A. Disbursement Fee (Phase 1). Borrower shall pay to A.I.D. a fixed disbursement fee equal to one percent of this \$25 million loan (amounting to \$250,000). Such fee shall be paid to A.I.D. at the rate of 2% of each disbursement of the AID-Guarantied Loan, until the full amount of such fee has been reached. This fee shall be non-refundable, notwithstanding the failure of the Borrower to subsequently receive additional disbursements of the full amount of the Loan. The fee is payable by electronic fund transfer to the Federal Reserve Bank of New York by specifying "credit to the U.S.Treasury, A.I.D. Agency Location Code 72000001, A.I.D. project number 383-HG-001, in payment of A.I.D.Fee". The fee may be deducted from the amount disbursed upon instruction to the Investor in the "Request for Borrowing" required by the Loan Agreement.
- B. Guaranty Fee. In addition, Borrower shall pay A.I.D. a Guaranty Fee calculated at the rate of one-half of one percent ($\frac{1}{2}\%$) per annum of the aggregate unpaid principal amount of all A.I.D. - guaranteed promissory notes issued and outstanding under the Loan Agreement. This Fee shall accrue from the date each guaranteed note is issued under the Loan Agreement, and shall be payable to the Paying and Transfer Agent ("Paying Agent"), at the address specified herein, or as otherwise provided in any applicable paying agency agreement, on the same due dates as provided for on the notes until each note is fully repaid.

Section 4.03. Payments by Borrower to Investor and A.I.D.

- A. In order to facilitate principal and interest repayments due Investor and the payments of the A.I.D. Guaranty Fee to A.I.D., Borrower agrees to remit all such sums to the Paying Agent X designated below or as otherwise provided in any applicable + paying agency agreement. Other fees due Investor, such as the Investor's commitment fee, shall be paid as directed by the Investor. It is understood that the Paying Agent or any other X paying agent shall apply such remittances in accordance with the Loan Agreement, any paying agency or escrow agreements, and this Agreement. In the event Borrower, fails to remit when due any payments required by the Loan Agreement, A.I.D. in its sole discretion may make payment to Investor under the A.I.D. Contract of Guaranty from A.I.D.'s own resources. Borrower agrees to promptly repay A.I.D. the amount expended.
- B. In the event the Paying Agent is discontinued, the payments due Investor and Guaranty Fee due A.I.D. will be made to such other paying agent, trustee, or banking institution in the United States, or directly to Investor and to A.I.D. as mutually agreed upon or as A.I.D. shall be designate by notice or Borrower and Investor.

Section 4.04. Late Payment Charge. In the event of late payment of amounts due, including Loan repayments, A.I.D. fees due under Section 4.01, or of any sums due A.I.D. by way of reimbursement due under Section 4.02(A), a late payment charge will accrue on the unpaid installment. This Late

Payment Charge on the unpaid installment will accrue to A.I.D. on a semi-annual basis at the interest rate of the Loan and will be calculated from the date it was due to the date it was received by the Paying Agent. The Late Payment Charge will be computed as if each year consists of 365 days.

Section 4.05. Reimbursement and Subrogation. Borrower agrees that if A.I.D. makes any payment on its behalf to Investor pursuant to the Contract of Guaranty, Borrower will reimburse A.I.D. for any such payment upon request from A.I.D. to Borrower; provided, however, that this provision shall be in addition to any common law rights of subrogation which A.I.D. may have against Borrower upon any such payment.

ARTICLE V

DISBURSEMENTS

Section 5.01. General Basis for Disbursement.

A. Prior to seeking an Investor, Borrower shall submit in form and substance satisfactory to A.I.D. a First Program Delivery Plan described in Section 6.02. Upon meeting this condition, Borrower shall seek an Investor, and enter into the series of agreements referred to in Section 1.01. Reference is made to the Loan Agreement, which shall set forth certain conditions to be met before the Investor is obligated to make disbursements. Except as A.I.D. may otherwise agree, all of the conditions precedent to disbursement in the Loan Agreement and this Implementation Agreement

must be met to Investor and A.I.D.'s satisfaction before A.I.D. will guaranty repayment of a specific disbursement.

- B. A.I.D. shall approve disbursements on the basis of progress of the Project in conformance with the updated Project Delivery Plan referred to in Sections 5.03 and 5.04. Disbursements from the Loan shall be made to reimburse the Borrower or MLGHC for payments actually made on account of the acquisition of building materials for the ASH component and on account of the costs of land, services, infrastructure, facilities, and materials for the Slum and Shanty upgrading component, including such ASH loans and such other items as may be mutually agreed upon.
- C. All documents and materials required to be approved by A.I.D. as a condition for a disbursement being guaranteed shall be delivered to A.I.D. far enough in advance of disbursement to permit proper review, but in no event less than twenty (20) days prior to disbursement.

Section 5.02. Eligible Expenditures and Allocations for Each Subproject.

- A. The definitions of Eligible Expenditures, and amounts of allocations are as follows:
1. ASH Component - except as A.I.D. may otherwise agree, eligible expenditures shall be the dollar equivalent of all payments actually made to the Building Materials Corporation or other

suppliers acceptable to the GSL and A.I.D. under the ASH low income program with respect to eligible subprojects as defined below. Expenditures made after January 1, 1981 are eligible for reimbursement from the Loan. The amount of twenty-three million dollars (\$23,000,000) of the Loan is allocated to this component.

2. Slum and Shanty Upgrading - eligible expenditures shall be the dollar equivalent of payments actually made to contractors and suppliers after January 1, 1981, for technical designs, materials and labor, such other costs as A.I.D. may agree to with respect to eligible Slum and Shanty Upgrading subprojects as defined below. The amount of two million dollars (\$2,000,000) of the Loan is allocated to this component, unless otherwise agreed.

- B. The Loan shall be used to finance only that portion of the Program which represents the costs of Eligible Expenditures listed above.
- C. The allocations of funds may be revised. The sums allocated in Section 5.02A for the various components represent the best estimate of Program needs. These sums may be increased or decreased by the Borrower in amounts up to 15% of each component allocation. Adjustments greater than 15% must be submitted to A.I.D. for approval, accompanied by a detailed justification of the reasons for the proposed change and, if approved, may be accomplished by Program Implementation Letter according to Section 7.01.

Section 5.03. Condition Precedent for A.I.D.'s Guaranty of the First Disbursement. Prior to A.I.D.'s guaranty of the first disbursement under the Loan, Borrower will, except as A.I.D. may otherwise agree in writing, deliver to A.I.D., in form and substance satisfactory to A.I.D

- A. a legal opinion of counsel to the Government of Sri Lanka to the effect that the Sri Lanka Guaranty Agreement has been duly authorized, executed and delivered by such Government and constitutes a legal, valid and binding obligation of the Government of Sri Lanka;
- B. all documents required by the terms of the Loan Agreement to satisfy conditions precedent contained therein;
- C. a Request for Disbursement and Certificate in the form of Annex B, duly completed and signed, including schedules which indicate the application of the funds;
- D. an updated Program Delivery Plan showing projected uses of the Loan over the duration of the implementation period. This plan shall be prepared by Borrower with the assistance of A.I.D., and shall reflect the anticipated time, costs, and financing of the Program in accordance with the guidelines provided in Section 6.02.
- E. submission of the scopes of work and schedules for the housing subsidy study and housing policy study referred to in Section 6.05;

- F. evidence that the GSL has appointed a Program Coordinator as referred to in Section 6.10.
- G. such legal opinions of counsel to Borrower with respect to any agreement or delegation of authority not provided for in the Loan Agreement, as A.I.D. may reasonably request; and,
- H. such other documents and representations as A.I.D. may reasonably request.

Section 5.04. Conditions Precedent to A.I.D.'s Guaranty of Additional and Final Disbursements. Prior to A.I.D.'s guaranty of additional and final disbursements under the Loan, and except as A.I.D. may otherwise agree in writing, Borrower shall deliver to A.I.D., in form and substance satisfactory to A.I.D.:

- A. a Request for Disbursement and Certificate in the form of Annex B;
- B. all documents required by the Loan Agreement to satisfy the applicable conditions precedent contained therein in relation to such additional and final disbursements;
- C. such legal opinions of counsel to Borrower with respect to any agreement or delegation of authority not provided for in the Loan Agreement, as A.I.D. may reasonably request;
- D. an undated Program Delivery Plan;
- E. for the final disbursement which shall not be less than \$5,000,000 unless A.I.D. otherwise agrees, evidence that materials deliver;

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construction, and occupancy of the ASH funded units are proceeding substantially in accordance with the estimates in the Program Delivery Plan; and,

- F. such other documents and representations as A.I.D. may reasonably request.

Section 5.05. Terminal Date for Conditions Precedent.

- A. If all of the conditions specified in Section 5.03 have not been met as of the date specified in the Loan Agreement for the first disbursement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate its own obligations under this Agreement by written notice to Borrower.
- B. If all of the conditions specified in Section 5.04, with respect to additional and final disbursements, have not been met as of the dates for additional and final disbursements established in the Loan Agreement or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate its further obligations under this Agreement by written notice to Borrower.
- C. In case of termination pursuant to subparagraph A or B above, A.I.D. shall have no further obligation to guaranty Notes issued by Borrower to Investor, except when Notes are issued pursuant to that section of the Contract of Guaranty, providing for assignment and replacement of Notes.

Section 5.06. Exchange Rate. The rate of exchange used for the purpose of preparing a Request for Disbursement and Certificate shall be the most favourable U.S.Dollar to Rupee rate of exchange in Sri Lanka on that date which is 30 days prior to the disbursement, and this rate shall be specified by Borrower in the Request for Disbursement and Certificate.

ARTICLE VI

SPECIAL COVENANTS

Section 6.01. Use of Loan Proceeds. The Borrower will use the proceeds of the Loan for the sole purpose of financing the Project in the manner prescribed in this Agreement.

Section 6.02. Program Delivery Plan. Promptly after the execution of this Agreement, the GSL, with the assistance of A.I.D. shall prepare a Program Delivery Plan. Such Plan shall indicate the expected cost estimates and cash flow schedules for the Program. The Plan shall include a chart to indicate expected progress on important elements of the Program. It shall contain a description of established procedures of the MLGHC for site selection, beneficiary selection, and cost recovery. With respect to the ASH component, the Plan shall include the designs of the prototype unit eligible to be built with the building materials loans, the bill of materials required for each such prototype and the terms of the loans to beneficiaries. With respect to the Slum and Shanty Upgrading Component, the Plan shall indicate the standard procedures and criteria for upgrading. The Plan shall contain such other data as may be

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mutually agreed upon. The GSL agrees to inform A.I.D. of substantial changes in procedures, criteria or other data which would affect the accuracy of the Plan during the Program Implementation period.

Section 6.03. Standards, Affordability and Eligible Beneficiaries.

Legislation governing A.I.D. required that the benefits of the Program flow directly to families earning less than the median household income in the applicable urban or rural area. Such families are referred to in this Agreement as "Eligible Beneficiaries". It is mutually agreed that as of December 1980, the median urban income is estimated to be 1125 Rupees. In order to insure that the benefits of the Program flow to Eligible Beneficiaries, Borrower will manage the Program so that the benefits of the ASH Building Materials Loans and upgrading flow to Eligible Beneficiaries. Costs will be kept at a level to insure that the benefits of these activities are affordable to the Eligible Beneficiaries and that monthly payments including municipal charges will not be in excess of 25% of their monthly income. The median income figure may be revised from time to time by mutual agreement in Program Implementation Letters to reflect changes. Procedures for selecting actual beneficiaries from among Eligible Beneficiaries shall be described in the Program Delivery Plan. It is also mutually agreed that in addition to meeting the criteria for Eligible Beneficiaries, costs will be kept to the minimum acceptable so as to provide shelter for as many households as possible.

Section 6.04. Eligible Subprojects and Subproject Approvals.

Subprojects in the ASH component and Shanty Upgrading Component shall be deemed to be "Eligible Subprojects" so long as they meet the criteria set

forth in the Program Delivery Plan as approved by A.I.D. for implementing such subprojects. A.I.D. reserves the right to approve the plans, specifications, and site selection for each subproject financed by the Loan. However, it is the intention of A.I.D. to exercise such approval rights on a limited basis only and rely upon semi-annual Program reviews referred to below to monitor the various subprojects.

Section 6.05. Studies. The GSL using funds to be provided by A.I.D. under a separate agreement shall sponsor studies with respect to those subject areas identified in Annex A. The scopes of work and timing of these studies shall be mutually agreed upon. It is understood that such studies will be used to assist the GSL in recommending a comprehensive national shelter policy for Sri Lanka. The GSL agrees to complete the housing subsidy study identified in Annex A and begin major portions of the national housing policy study during Phase I of this Agreement.

Section 6.06. Technical Assistance. The attached Annex A refers to technical assistance for the Program and source of funding for such assistance. The GSL agrees to accept such assistance and provide such support as may be mutually agreed upon.

Section 6.07. Coordination With Other Donors. The GSL shall inform A.I.D. of other donor projects in the shelter sector which are being planned or implemented during the disbursement period of this Program. At the request of A.I.D., the GSL will consult with A.I.D. and the various donors to assure the maximum degree of coordination and mutual support.

Section 6.08. Cost Recovery. It is mutually recognized that a vital ingredient of a productive national housing policy is effective cost recovery policies and procedures so as to provide new capital to finance more shelter. Upon completion of the relevant studies referred to in Section 6.05, the GSL shall consult with A.I.D. on how the parties may work toward this goal of cost recovery and procedures which must be in place by Phase II. Except as A.I.D. may otherwise agree with respect to those ASH loans signed between January 1 and March 15, 1981, during the Phase I of the ASH Program, it is agreed that the full capital costs will be recovered from beneficiaries at a two percent (2%) effective interest rate over the life of each ASH loan. Thus, at the close of calendar year 1981, subject to the possible exception noted above, each Eligible Beneficiary receiving an ASH loan will have signed appropriate agreements giving effect to this cost recovery formula.

Section 6.09. Training. The MLGHC shall consult with A.I.D. concerning its needs for manpower training as such needs shall be manifested in current or future manpower studies. A.I.D. shall use its best efforts to finance mutually agreed training needs for citizens of Sri Lanka working in shelter and related sectors.

Section 6.10. Program Management and Coordination. The GSL shall appoint a "Program Manager" whose responsibility shall be to oversee the implementation of the Program. The GSL shall take steps as may be necessary and proper to assure that the Program Manager is vested with sufficient authority and resources to coordinate the activities of other implementing offices and to implement the Program with due speed and diligence.

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Section 6.11. Subproject Reporting. Without limiting Section 7.05 the parties shall mutually agree on a plan for reporting on the details of specific subprojects funded by the loan.

ARTICLE VII

GENERAL COVENANTS

Section 7.01. Program Implementation Letters. To assist in the implementation of the Program, A.I.D. from time to time may issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also jointly agree to Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used formally to amend the text of the Implementation Agreement. However, they may be used to record: the revision of details of the Program as set forth in Annex A, pursuant to Section 2.01; waivers of rights by Parties for whose benefits such rights exist; or exceptions which are permissible under the terms of the Agreement.

Section 7.02. Program Evaluation. The Parties agree to establish an evaluation program as an integral part of the Project. Except as the Parties otherwise agree in writing, A.I.D. shall be responsible for conducting the evaluation program in close consultation with the GSL and according to A.I.D.'s Evaluation and Monitoring Guidelines, and the GSL shall be responsible for providing such data concerning the Program as

A.I.D. may request. The program will include annually during the implementation of the Program and at one point thereafter:

- A. evaluation of progress toward attainment of the objectives of the Program;
- 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, in this or other projects; and
- D. to the degree feasible, evaluation of the overall developmental impact of the Program.

Section 7.03. 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 Program, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Program, and any other matters relating to the Program.

Section 7.04. Execution of the Program. GSL will:

- A. carry out the Program 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, required to be approved by A.I.D. pursuant to this Agreement; and

- B. provide qualified and experienced management, and train such staff as may be appropriate, for the maintenance and operation of the Program, and cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Program.

Section 7.05. Reports, Books and Records, Audit and Inspection.

- A. GSL shall furnish reports and information as follows:
 - 1. Until the Loan is fully repaid, a Remittance Reconciliation Report in the form set forth in Annex D. This Report shall be provided to A.I.D. within fifteen (15) days of the date a payment is due under this Agreement or the Loan Agreement and immediately after a payment is made that is not made on its due date.
 - 2. During the Program and until the Loan is fully disbursed and repaid, such other reports and information relating to the Program, the Loan and this Agreement as A.I.D. may reasonably request.
- B. GSL shall maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program, to the Loan, and to the Agreement, adequate to show without limitation, the receipt and use of funds, the relending of funds, and the use of goods and services acquired under the Loan. Such books and records will also be adequate to show the nature and extent of solicitations

of prospective suppliers of goods and services, the basis of awards of contracts and orders, and the overall progress of the Program toward completion. These books and records shall be maintained (1) with respect to the Program for three years after the date of Program completion and (2) with respect to the Loan for three years after the Loan has been fully repaid.

- C. Until the Loan is fully repaid, GSL shall arrange to have such books and records audited annually by independent auditors in accordance with generally accepted auditing standards. Such audit shall provide segregated accounting and comments for the Loan and be submitted annually to A.I.D.
- D. GSL shall afford authorized representatives of A.I.D. the opportunity at all reasonable times to inspect the Program, and books, records, and other documents relating to the Program, to the Loan, and to this Agreement.

Section 7.06. Completeness of Information. GSL confirms that:

- A. the facts and circumstances set forth in the Project paper are accurate and complete, and include all facts and circumstances that might materially affect the Program, the Loan, and the discharge of GSL's responsibilities under this Agreement; and,
- B. GSL 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 Program, the Loan, or the discharge of responsibilities under this Agreement.

Section 7.07. Publicity. As may be described in Program Implementation Letters, GSL shall give appropriate publicity to the Loan and to the Program and the United States role therein.

Section 7.08. Reasonable Prices for Procurement. No higher than reasonable prices (determined in accordance with the GSL's standards of reasonableness) will be paid for any goods or services financed, in whole or in part, under the Loan. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

ARTICLE VIII

RIGHTS OF A.I.D.

Section 8.01. Suspension and Acceleration.

- A. In the event that GSL materially breaches (i) this Agreement, or any paying agency or escrow agreement, or GSL breaches the Sri Lanka Guaranty Agreement (and any such breach is not a breach under the Loan Agreement) and any such breach is not rectified within a period of ninety (90) days from the delivery of notice by A.I.D. with respect thereto, or (ii) the Loan Agreement and any such breach is not rectified within the period provided for rectifying such breach before it becomes an Event of Default under the Loan Agreement, then A.I.D. may

take any or all of the following actions:

1. decline to execute an A.I.D. Guaranty Legend on any additional Notes for disbursements under the Loan Agreement or the Contract of Guaranty, except when Notes are issued pursuant to the provisions for assignment or replacement of Notes under the Contract of Guaranty.
 2. require GSL to prepay immediately to Investor all or any part of the unpaid principal of the Eligible Notes with accrued interest and Guaranty Fee to the date such payment is made, as well as any Late Payment Charge which may accrue.
- B. In the event that the guaranty of further Notes is contrary to legislation governing A.I.D., by notice to GSL A.I.D. may exercise the remedy specified in paragraph (A) (1) above.
- C. In the event GSL fails to pay when due any interest or installment of principal or other payment required under any other loan, guaranty, or other agreement between the GSL or any of its agencies and A.I.D. or any of its predecessor agencies, then A.I.D. by notice to GSL, may exercise the remedy specified in paragraph (A) (1) above.

Section 8.02. Non-Waiver of Remedies. The marking of any Eligible Note by A.I.D., the payment by A.I.D. to Investor of any amounts pursuant to the Contract of Guaranty, the delay or failure of A.I.D. to make any

claim for payment, or the delay or failure of A.I.D. to give its written approval to an acceleration of the Notes by Investor shall not operate as a waiver by A.I.D. of any rights accruing to A.I.D. under this Agreement, the Loan Agreement, the Contract of Guaranty, or the Sri Lanka Guaranty Agreement.

ARTICLE IX

MISCELLANEOUS

Section 9.01. 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 refer to the Project Number 383-HG-001 and will be deemed duly given or sent when delivered to such party at the following address:

To Borrower:

Mail Address:

DIRECTOR, EXTERNAL RESOURCES DEPARTMENT
MINISTRY OF FINANCE AND PLANNING
COLOMBO 1, SRI LANKA.

Alternate Address for Cables:

FORAID
COLOMBO, SRI LANKA.

To A.I.D.:

Mail Address:

USAID/SRI LANKA
AMERICAN EMBASSY
44, GALLE ROAD
COLOMBO 3, SRI LANKA.

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To A.I.D.:

Alternate Address for Cables:

USAID AMEMBASSY
COLOMBO, SRI LANKA

Copy to

Mail Address:

Office of Housing
Agency for International Development
Room 625, SA/12
Washington, D.C. 20523

Alternative Address for Cables:

AID
WASHINGTONDC

TELEX NOS: ITT 89-27-03

RCA 24-83-79

To Paying and Transfer Agent:

Mail Address:

The Riggs National Bank
800 Seventeenth Street, N.W.
Washington, D.C. 20006
Attention: Trust Department
Housing Guaranty Project No. 527-HG-010

Alternate Address for Cables:

RIGGS BANK WASHINGTONDC

TELEX NOS: IT 44-01-03

RCA 24-83-63

All such communications shall be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice to each party.

Section 9.02. Term of Agreement. The term of this Agreement shall be from the date hereof until the payment of all sums due under this Agreement and the Loan Agreement. All representations contained herein shall survive until such termination.

Section 9.03. Amendments or Modifications. This Agreement may be changed only by a written instrument executed by the Parties hereto.

Section 9.04 Integration. This Agreement supersedes all prior agreements and understandings, if any, between the Parties hereto which relate to the subject matter hereof. The agreements described in Section 1.01.; are incorporated by reference into this Agreement. In case of ambiguity between the principal text of this Agreement and the text of its annexes, the text of this Agreement shall govern.

Section 9.05. Severability Clause. In the event any provision of this agreement is determined to contravene any law or public policy of the United States of America or of the Country of the Borrower, such provision shall be deemed null and void and the remaining provisions hereof shall continue and remain in full force and effect and be construed to implement, to the maximum extent possible, the intent of the parties hereto.

IN WITNESS WHEREOF, Sri Lanka 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.

THE DEMOCRATIC SOCIALIST REPUBLIC OF
SRI LANKA

BY: *W.M. Tilakaratna*

NAME: W.M. Tilakaratna

TITLE: Secretary,
Ministry of Finance & Planning

UNITED STATES OF AMERICA

BY: *Donald R. Toussaint*

NAME: Donald R. Toussaint

TITLE: American Ambassador

PROGRAM DESCRIPTION

1. Program Objectives

The basic objectives of the Program are to address shelter and environmental conditions affecting the urban and rural poor in Sri Lanka, and to enable this target group to secure and upgrade its shelter through home loans of the aided self-help and slum and shanty upgrading programs. More than half of the resources will be used outside of Colombo, with the remainder being used in Colombo and other major urban centers. The HG loan will permit the GSL to finance (a) low income shelter solutions under the aided self-help concept, (b) related community services such as employment opportunity facilities, (c) home improvements under the slum and shanty upgrading program, and (d) upgrading, and infrastructure and facilities related to the above. In addition, the Program will introduce improved technical and administrative (institutional) operations through highly specialized long and short term technical assistance.

Achievement of the objectives of the Program will be pursued through two subprojects.

A. Aided Self-Help

1. Description

This program provides loans to finance building materials, both for the basic house and for wells, pit latrines, culverts and drainage pipes. All labor is provided by the allottee family with some technical assistance by the National Housing Development Authority which administers the program.

The projects usually consist of 40-50 units but can run as high as 100. They consist of families who have formed a "building society" to implement the project. Programs are located in or near rural villages or the sub-urban areas of larger towns. Land is made available through the NHDA on a 33 year renewable lease at a ground rent of Rs.12 per year.

The Model Villages Program which falls within the aided self-help category and utilizes the aided self-help concept is also administered by the NHDA. It works on the same principle but is related to specific villages where certain other improvements are made, specifically, community facilities, health centres, schools, employment generating programs etc.

Another sub-program which will utilize the aided self-help concept beginning in 1981 is the Electoral Program. In this program a specified number of houses are built in each electoral district (171) each year. In 1981 thirty houses are scheduled to be built in each district. In addition to the materials loan each allottee under this program is given a Rs.2000 loan to engage local contractors to assist in the house construction. Programs are designed to be completed within a one year period.

The Fisherman's Housing Program also applies the Aided Self-Help concept and is a joint program between the MLGHC and the Ministry of Fisheries. It seeks to upgrade the sub-standard housing that exists in most fishing villages by the construction of better housing through aided self-help techniques and material loans. Land and financing is provided through the NHDA's Aided Self-help Program. Like the Electoral Program, this program until recently was implemented through direct construction of the houses but has been switched to Aided Self-help in 1981.

2. Delivery Plan

MLGHC shall prepare a subcomponent delivery plan to be submitted as part of the updated Project Delivery Plan needed to justify disbursement under Article V. The plan shall be in form and substance satisfactory to A.I.D. and shall address the technical, environmental and financial aspects of the subproject as agreed upon.

B. Slum and Shanty Upgrading

1. Description

The Slum and Shanty Upgrading Program consists mostly of pilot projects. It is essentially an infrastructure program which does not as yet include building materials to upgrade the houses, but does provide for transfer of land tenure. Some houses and core houses are being included in projects where the provision of infrastructure will require displacement. Additional provisions to these projects may include items such as building material loans, community facilities and employment generating components.

2. Delivery Plan

MLGHC shall prepare a subcomponent delivery plan to be submitted as part of the updated Project Delivery Plan in order to justify a disbursement under Article V. The plan shall be in form and substance satisfactory to A.I.D. and shall address the technical, environmental, and financial aspects

II. Institutional Outputs

The program seeks to strengthen and improve the GSL's capacity to develop its housing programs from the policy, planning and implementation standpoint on a self-help sustaining basis by addressing three institutional factors.

The first of these is a strengthened central programming and planning unit in the Ministry of Local Government, Housing and Construction (MLGHC) leading to a more comprehensive government housing policy which sets the framework for the development and implementation of government programs.

The second of the institutional outputs is an increased capacity for better site planning, better house design, greater assistance in self-help and more effective community development. The primary institutions involved in these processes will be the Urban Development Authority, currently responsible for the slum and shanty upgrading program, and the National Housing Development Authority, currently responsible for the development of the Government's direct housing programs.

The third of the programs institutional outputs will be the improvement of the mechanism for establishing and servicing the Government's loans and rental for shelter and related infrastructure, to begin to put its programs on a self-sustaining basis.

The institutional goal to be achieved relative to cost recovery takes two forms. The first is to set realistic payments for rentals and loans and the second is to effectively collect these payments.

An output which will be sought over the life of the program, but which will not be included in the first year's program, is a capacity to institute employment generating programs within shelter projects.

III. Program Inputs

The primary A.I.D. input will be the guaranty for a \$100 million multi-year Housing Guaranty Loan with authorization of up to \$25 million in successive years, based on progress toward achievement of the goals and purpose set forth in the agreement. The HG Loan will be used to finance the shelter solutions, related infrastructure, and eventually the serviced plots for entrepreneurial activities. It will be done within the overall GSL housing program.

Grant funds utilizing AID/Washington's Integrated Improvement Program for the Urban Poor (IIPUP) will be used to finance long term and short term technical assistance.

Grant funds from the GSL/USAID Development Services and Training Project will be used to finance short term training and research activities.

IV. Beneficiaries

The target group that this program will aim at are those families earning below the median urban and rural incomes of Rs.1,125 and Rs.690 per month respectively.

V. Technical Assistance and Training

To carry out the program set forth, assistance of four types is needed: (1) resident contract advisors; (2) short term consultants; (3) special studies; and, (4) training.

- A. Resident Advisor. Housing Generalist to be assigned to work in the Ministry of Local Government, Housing and Construction. This advisor would assist in preparation of the comprehensive national housing policy; assist in work on management organization, functional and procedural clarification and help design the management studies; assist in drafting the terms of reference for a housing finance study and assist in formulating the cost recovery program.
- B. Short-term Advisors/Studies Priority will be given to short term assistance to improve community organization and community participation in low income settlements. Other efforts would include, but not be limited to (1) developing the mechanism of a revolving fund; (2) complete an in-depth study of the subsidy program of the GSL (with recommended programs for subsidy reduction); (3) complete a comprehensive study of housing finance in Sri Lanka with recommendations for the future needs to be undertaken as a first step in this sub-sector; (4) an updating of the 1976 Marga Institute study, "Housing in Sri Lanka" as the basis for work in a national Housing policy and rolling plan formulation; (5) assistance in establishing accounting and collection procedures for the NHF, and, (6) expert technical inputs in the formulation/operation of small enterprise development.

Training

Sri Lanka has participated in the AID Office of Housing 's Annual Shelter Workshops and continued participation would represent a key training element. The second component would be in a in-country two week mini-course/workshop on shelter development to reach 10-15 working level staff of the various shelter and shelter related agencies. The third component is a short course in housing finance and related disciplines in the United States for Sri Lankans - currently working in the field of finance. Finally, Sri Lankans who are committed to

the field of shelter would be given training in the U.S. It is anticipated that would consist of 6-9 months of both formal academic work - at the graduate level - and an "internship" in the A.I.D. Office of Housing.

It is anticipated that the Office of Housing will contribute \$800,000 of the TA budget and USAID/Sri Lanka will contribute \$175,000.

VI. Host Country Contribution.

Since the HG Loan will be a part of the overall GSL housing program for the next four years, financing approximately twenty-eight percent (28%) of the housing component of the current Public Investment Plan, the GSL contribution, in effect, becomes the remainder of the financing. The GSL will be furnishing the land, project beneficiaries will be contributing their own labor, and the GSL will be financing the community facilities, such as multi-purpose community centers, health clinics, market centers, schools, bus stops etc. In addition, the GSL will contribute in-kind support for the technical assistance, studies, and training, as may be agreed upon.

SRI LANKA

PROJECT NO: 383-HG-001

REQUEST FOR DISBURSEMENT AND CERTIFICATE

The Democratic Socialist Republic of Sri Lanka hereby certifies to the United States Agency for International Development (A.I.D.) under the Project Agreement dated as to August 24, 1981 that:

1. \$U.S. _____ from the A.I.D.-Guarantied Loan (HG), is requested for disbursement and Borrower's request for such disbursement is in accord with the terms of the Investor Loan Agreement and the Implementation Agreement.
2. Borrower is in full compliance with all the terms and conditions of the investor Loan Agreement and the Implementation Agreement.
3. The Schedules attached hereto for purposes of justifying the requested disbursement have been completed accurately and fully reflect the facts existing as of the date of this Request and Certificate.
4. The rate of exchange used in preparation of this document and attachments is _____.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

BY: _____

TITLE: _____

DATE: _____

Attachments:

Project Delivery Plan (OTHERS AS NECESSARY)
(to be agreed upon pursuant to Section 6.11)

IN WITNESS WHEREOF, the Cooperating Country 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 DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA

GOVERNMENT OF THE UNITED
STATES OF AMERICA

by W.M. Tilakaratna

Name: W.M. Tilakaratna

Title: Secretary,
Ministry of Finance & Planning.

by Donald R. Toussaint

Name: Donald R. Toussaint

Title: American Ambassador