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A.I.D. Loan Number 383-T-025B

A.I.D. Project Number 383-0055

CONFORMED COPY

AMENDMENT NUMBER TWO

TO

PROJECT LOAN AND GRANT AGREEMENT

BETWEEN

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

AND

THE UNITED STATES OF AMERICA

FOR

REFORESTATION AND WATERSHED MANAGEMENT

Dated: August 31, 1983

L/Ag&L/G Ag
FM/LMD
FM/CAD
ASIA Desk
GC/ASIA
PPC/E/DIU Ac
→ ASIA/PD/Elle
FM/BFD

A.I.D. Loan Number 383-T-025B
A.I.D. Project Number 383-0055

AMENDMENT NUMBER TWO

TO

PROJECT LOAN AND GRANT AGREEMENT

AMENDMENT NUMBER TWO dated August 31, 1983, between the Democratic Socialist Republic of Sri Lanka ("Cooperating Country") and the United States of America, acting through the Agency for International Development ("A.I.D"):

WHEREAS, the Cooperating Country and A.I.D. entered into a Project Loan and Grant Agreement for the Project dated July 8, 1980, and Amendment Number One thereto dated August 29, 1980; and

WHEREAS, the Cooperating Country and A.I.D. desire to amend the Agreement to increase the amount of the Loan and Grant and extend the Project Assistance Completion Date;

NOW THEREFORE, the parties hereby further amend the said Agreement as follows:

1. Article 3: Financing

SECTION 3.1. The Loan. Delete the words "not to exceed three million four hundred thousand United States ("U.S.") dollars (\$3,400,000) ("Loan")" and substitute in lieu thereof the words "not to exceed six million, eight hundred forty three thousand United States ("U.S.") dollars (\$6,843,000) ("Loan")".

SECTION 3.2. The Grant. Delete the words "not to exceed nine hundred fifty thousand United States ("U.S.") dollars (\$950,000) ("Grant")" and substitute in lieu thereof the words "not to exceed one million two hundred fifty thousand United States ("U.S.") dollars (\$1,250,000) ("Grant")".

SECTION 3.3.(b). Cooperating Country Resources for the Project. Delete the words "U.S.\$10,330,000" and substitute in lieu thereof "U.S.\$5,700,000".

SECTION 3.4. Project Assistance Completion Date. Delete the words "July 8, 1985" and substitute in lieu thereof the words "July 8, 1987".

2. Article 5: Conditions Precedent to Disbursement. Delete the SECTION 5.3 in its entirety. SECTION 5.4 should be renumbered as 5.3, SECTION 5.5 should be renumbered as 5.4., and SECTION 5.6 should be renumbered as 5.5.

Add the following new SECTION 5.6:

SECTION 5.6. Disbursement Under Amendment Number Two

Prior to the first disbursement of loan funds under Amendment Number two to this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement thereunder will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an opinion of counsel acceptable to A.I.D. that the said Amendment Number Two has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country and that it and the Agreement as thereby amended constitute valid and legally binding obligations of the Cooperating Country in accordance with all of their terms. If the condition specified in this Section has not been met within ninety (90) days from the date of Amendment Number Two or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement, as amended, by written notice to the Cooperating Country. A.I.D. will promptly notify the Cooperating Country when it has determined that the condition precedent specified in this Section has been met.

3. Article 6: Special Covenants

SECTION 6.3: Delete the entire section and substitute the following new section 6.3: "The Cooperating Country covenants that, by the end of the sixth year of the Project, it will adopt for implementation a program acceptable to A.I.D. for continued replanting and maintenance of forest plantations."

4. Article 7: Procurement Source

SECTION 7.1 Foreign Exchange Costs. Delete the last paragraph of the Section and substitute the following: "Except as A.I.D. may otherwise agree in writing, ocean transportation costs will be financed (a) under the Loan only on vessels under flag registry of the United States, other countries included in A.I.D. Geographic Code 941, and the cooperating country, and (b) under the Grant only on vessels under flag registry of the United States."

5. Annex 1: Project Description

Annex 1 to the Agreement is deleted in its entirety and the attached Revised Annex 1 is substituted.

6. All other terms and conditions of said Project Agreement dated July 8, 1980 as previously amended shall remain in full force and effect.

GOVERNMENT OF THE DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA

By *W.M. Tilakaratna*
Name : W.M. Tilakaratna
Title : Secretary
Ministry of Finance and Planning

GOVERNMENT OF THE UNITED
STATES OF AMERICA

By *Herbert G. Hagerty*
Name : Herbert G. Hagerty
Title : Charge d' Affaires
ad interim

By *S.J. Littlefield*
Name: S.J. Littlefield
Title: Director, USAID, Sri Lanka

Revised Annex IREFORESTATION & WATERSHED MANAGEMENT
AMPLIFIED PROJECT DESCRIPTIONA. THE PROJECT1. Purpose

The purpose of this project is: (a) to conserve and stabilize watershed areas in the highland areas of Sri Lanka, and (b) to enhance the natural renewable energy and commercial resource base of Sri Lanka.

Since both purposes are of a continuing nature rather than ones that can be achieved in a limited time, this project will emphasize increasing the institutional capacity of the Forest Department to plan and carry out continuing operations and to implement the first phase of a long-term program of tree planting and maintenance.

2. Expected Outputs

To achieve the project purpose, outputs in two broad categories should be in place at the end of the seven year project period: (a) institutional development of the Forest Department completed, and (b) four forest-related activities completed.

(a) The training capability of the Forest College at China Bay will be strengthened to provide the appropriate training for the Forest Department personnel needed to carry out the development plans of the Forest Department. This will include long-term training for forest rangers and guards, as well as short-term specialized in-service training.

(b) The research capability of the Forest Department will be improved so as to (1) expand in-country research capability, (2) prepare long and short term research objectives and priorities, and (3) analyze native forest plants so as to improve planting and biomass production, and develop appropriate species recommendations.

(c) A Forest Extension Service will be established so that seed, production materials, and information can be distributed to villagers. The Service will also develop a publicity program to stimulate appreciation and awareness of the many benefits of the forests to the general population.

(d) Fuelwood plantations will have been expanded by re-establishing forest cover on 35,000 acres of degraded chena land by 1987 in areas such as Puttalam, Trincomalee, Kurunegala and Batticaloa Districts and Mahaweli System H. Nurseries will be set up with a total capacity of 8 million seedlings per year for planting the appropriate fuelwood tree species.

(e) The Upper Mahaweli Catchment Area will have forest cover re-established on 24,000 acres of degraded lands. Plantings, supported by a nursery program capable of supplying 3 million seedlings per year. Tree species will be selected depending on planting site specifications and research trial results.

(f) Village agro-forestry plots (less than 50 acres each) will have been established in about 15 villages in land areas designated in cooperation with the Mahaweli Development Board.

(g) Fire control centers in the fuelwood and upper catchment forest plantations will have been established for the detection, monitoring and fighting of forest fires.

3. Expected Inputs

In order to achieve the expected outputs, the following inputs will be provided for the project.

(a) Technical Assistance: Expatriate advisors to assist the implementation of this project include: Chief-of-Party for about 55 months of the project, and about 52 months of short-term advisors, in subjects such as national forestry training, silviculture, wood technology, forestry extension, soil science, conservation and utilization.

(b) Training: Eight Forest Department personnel are to receive Master of Science degree level training in U.S. universities. About 102 personnel are to receive short-term training (up to six months each) in U.S. and third countries. About 20 officials will attend international conferences and seminars.

(c) Commodities: Commodities to be provided include about 12 utility vehicles (jeep-type), 15 trucks of 3-ton and 5-ton sizes, 16 tractors with trailers, seven utility vans, two buses, field and laboratory equipment, training aids, library books and supplies, office and laboratory supplies, tools, fertilizer and tree seed. Some commodities may be bought locally.

(d) Construction: The 43 buildings to be constructed by the project include: two student hostels, a library, teaching laboratory, wood products servicing unit and five staff quarters at the Forest College at China Bay; two field research stations with ten support staff quarters; seven divisional extension service field offices with 14 support staff quarters; and two fire and six radio towers for the fire control program.

(e) Tree Planting: Funds will be provided to share the cost of planting trees on 59,000 acres of land.

B. PROJECT IMPLEMENTATION

1. Technical Assistance

The Forest Department will contract with a U.S. university to provide the necessary technical assistance. AID's competitive procurement procedures will be followed.

2. Training

The contractor providing technical assistance may also handle arrangements for all training in U.S. and third countries except special conferences, seminars and workshops in third countries.

3. Commodities

The Forest Department will follow AID's commodity procurement procedures as outlined in AID Handbook 11. Vehicles and local procurement items will be bought directly by the Forest Department. All other items will be bought, using a U.S. procurement service agent.

4. Construction

AID will reimburse construction costs using the fixed amount reimbursement method. Construction will be done by private contractors using competitive bidding practices.

5. Tree Planting

The reforestation and replanting program will be financed by the fixed amount reimbursement method under a cost sharing scheme with the Forest Department.

C. PROJECT MANAGEMENT

The project is to be implemented by the Forest Department. Project activities will be administered, coordinated and monitored by the Deputy Conservator in charge of the overall project, designated as Project Director. The reforestation in the Upper Mahaweli Catchment Area and establishment of fuelwood plantations in the lowlands will be under the direct supervision of the Project Director. All activities connected with forestry education, training and extension will be under the direct supervision of the appropriate Deputy Conservator. Research activities will be under the direct supervision of the Chief Research Officer. The public awareness program will be supervised by the Forestry and Environment Division, Ministry of Lands and Land Development.

Project implementation and progress will be monitored by a project coordinating committee composed of representatives from the Forest Department (Project Director), Ministry of Lands and Land Development (Director, Forestry and Environment Division), USAID (Project Officer), and the primary technical contractor (Chief-of-Party). This committee will meet on a regular basis to review project progress and serve as a problem solving body to facilitate timely project implementation.

D. FINANCIAL PLAN

By this Project Agreement, AID is providing a grant of \$1,250,000 and a loan of \$6,843,000. Subject to the availability of funds and mutual agreement of the parties, AID intends to provide an additional \$200,000 grant funds and \$2,157,000 of loan funds in future years. The total AID life

of project contributions to this project thus should be \$1,450,000 in grants and \$9,000,000 in loans. The additional funds will be provided in subsequent years by amendments to this Project Agreement.

By this Project Agreement, the Cooperating Country agrees to provide contributions, including in-kind contributions, of not less than the equivalent of \$5,700,000 to cover: (a) investment costs, e.g. the many local costs to prepare, construct and equip the facilities needed to implement the project, and (b) operational costs, e.g. the usual costs of operating these facilities (personnel, supplies, maintenance, support for consultants, etc).

The Cooperating Country agrees that the approved annual budget for the Forest Department shall include sufficient levels of both AID funds (grant and loan) and Cooperating Country contributions to implement the project on a timely basis. The funds needed for each calendar year are as follows:

Calendar Year	Cooperating Country		AID
	Investment Costs (\$000)	Operating Costs (\$000)	(\$000)
1980-82	850	180	435
1983	670	50	1,780
1984	740	130	2,820
1985	800	190	2,556
1986	870	210	1,769
1987	870	220	1,090
	<hr/> \$4,800 <hr/>	<hr/> \$900 <hr/>	<hr/> \$10,450 <hr/>

Table 1, attached, gives the "Summary Cost Estimate and Financial Plan" of the project over the seven years. Changes of up to 40% in the allocation of A.I.D. funds to individual line items may be made without formal amendment of this Project Description. Adjustments in the allocation of funds for an individual line item between foreign exchange and local currency costs may be made by written agreement of the Parties without amendment of this Project Description.

Summary Cost Estimate and Financial Plan

(US\$ 000)

<u>Project Inputs</u>	<u>A.I.D.</u>		<u>Cooperating Country</u>	<u>Total</u>
	<u>Loan</u>	<u>Grant</u>		
	<u>Foreign Exchange</u>	<u>Foreign Exchange</u> <u>Local Costs</u>		
Technical Assistance	-	1,450	-	1,450
Training	2,100	-	-	2,150
Commodities	1,900	-	-	2,000
Construction	-	-	-	1,100
Tree Planting	-	-	3,650	7,400
Capital (Investment)	-	-	1,150	1,150
Recurrent (Operational)	-	-	900	900
	<u>4,000</u>	<u>5,000</u>	<u>1,450</u>	<u>16,150</u>
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