

PD-ABI-284

A.I.D. Project Number: 383-0107

AMENDMENT NUMBER FOUR

TO THE

GRANT AGREEMENT

BETWEEN

THE UNITED STATES OF AMERICA

AND

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

FOR

REHABILITATION ASSISTANCE

Date: April 30, 1993

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PROJECT AGREEMENT AMENDMENT

AMENDMENT NUMBER 4, dated April 30, 1993, 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 Rehabilitation Assistance Project Grant Agreement, dated July 21, 1988, as amended by Amendment No. 1 of March 29, 1989, Amendment No. 2 of June 8, 1990, and Amendment No. 3 of September 18, 1991 ("Agreement"); and

WHEREAS, the Grantee and A.I.D. (the "Parties") desire to further amend the Agreement to revise the Project activities because of civil strife and accordingly decrease the A.I.D. contribution and the Grantee Resources to the Project;

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 "Twenty Million Three Hundred and Eighty Eight Thousand Three Hundred and Ninety Four United States ("U.S.") Dollars (\$20,388,394)" and substituting therefor the words and number "Twenty Million Two Hundred and Eighty Two Thousand Six Hundred and Seventy Six United States ("U.S.") Dollars (\$20,282,676)".
2. Section 3.2 entitled "Grantee Resources for the Project" is amended by deleting the number US\$27,000,000 and substituting therefor the number US\$11,500,000.
3. The Amplified Project Description (Annex 1 to the Agreement) is deleted in its entirety and replaced by the Revised Amplified Project Description in Annex 1 hereto.

4. The Project Financial Plan, Attachment 1, Table 2, of the Agreement, as previously revised, is deleted in its entirety and Attachment 1, Table 2, hereto is 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:.....*S. Kuruppu*.....
Name: S.L. Kuruppu
Title: Director
External Resources Department
Ministry of Finance

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

A.I.D. No. 383-0107

Annex 1

**Rehabilitation Assistance Project
Revised Amplified Project Description**

I. General Project Description

The goal of the Rehabilitation Assistance Project is to promote incomes, employment and agricultural productivity in the northern and eastern provinces of Sri Lanka through the restoration of a viable productive economy. The Project purpose is to support the Government of Sri Lanka's (GSL) multidonor rehabilitation program in the areas of reconstruction of housing, rehabilitation of irrigation systems, restoration of crop production, and the revival of small enterprise.

A. Housing

Housing is the sector most heavily damaged by the conflict in the North and East. Unofficial estimates are that damaged or destroyed dwellings number approximately 115,000, and that as much as 80% of these were occupied by households with incomes below the national median. The GSL rehabilitation program will provide a package of loans and grants to households according to income levels. A.I.D. funds */ will be made available for the grant portion of the package for those households with an income level estimated to be Rs.1,500 or less. It is anticipated that the assistance package for these groups will be as follows:

<u>Income Level</u>	<u>Financial Package</u>
Category A - Rs. 700	Rs.15,000 grant
Category B - Rs. 701 - Rs.1,500	Rs.15,000 grant and up to Rs.15,000 loan

A.I.D. funds will cover approximately one-half of the grant package.

The grants will be made available primarily in the form of vouchers redeemable for building materials, with a portion available in cash as necessary.

A.I.D. funds are also provided for technical assistance in the housing component. Two resident advisors (one expatriate and one local-hire) and short-term technical assistance funded under the project will be made available for assistance in housing.

*/ A.I.D. assistance to the housing sector in the rehabilitation effort is also being provided through a Housing Guaranty loan program.

B. Unified Assistance Scheme

The Unified Assistance Scheme includes a total grant package of Rs.6,000 consisting of Rs.2,000 for a "settling-in allowance" for returnees and formerly-displaced families, and Rs.4,000 for a "productive enterprise grant" for all affected families with incomes of Rs.2,500 or less per month who were self-employed prior to their displacement or the damages incurred by their enterprises, in order to help them to re-establish their sources of income. Subject to the limitations of USAID funding under this Agreement, the following funding arrangements will apply: For families who receive the full package, USAID will provide the Rs.4,000 productive enterprise grant and the GSL will provide the Rs.2,000 settling-in allowance. For families who receive only the productive enterprise grant, USAID will provide Rs.2,000 to be matched by Rs.2,000 in GSL funds.

AID's portion of the Productive Enterprise Grants will be directed to agricultural activities including crop production and agribusiness, and to family-owned and operated enterprises in the commercial, industrial and service sectors. The grants will be made in cash, with adequate provision for monitoring disbursement and use of the grant funds and for evaluation of the impact of the program on the economic recovery of the affected families and the region. It is understood that the delivery of grants to farm families in the form of cash means that AID funds will not be directly used for the purchase of pesticides. However, in implementing the program the Government of Sri Lanka agrees to take steps to monitor and evaluate the use of pesticides by farmer-grantees and to inform them of available approaches with a view to encouraging use of environmentally sound pest management systems, in which pesticides are used only when necessary and supplementary or alternative methods of integrated pest control are encouraged wherever possible. AID will provide technical assistance as needed in the area of integrated pest management.

At a level of Rs.4,000 per family the AID Development Assistance funds available for Productive Enterprise Grants under the project will be sufficient to meet the needs of approximately 86,000 families. The requirements of remaining eligible families will be met with resources available to the Government of Sri Lanka from other sources.

In addition, enterprises will be eligible to receive small loans for productive activities for five to ten years at 9%, with no grace period. Project funds are available for the loan program to the extent such funds are available after the grant program has been initiated. The financial institutions through which the loan program will be administered will be entitled to receive fees for each loan disbursed, and a repayment fee as an incentive to collect the loans.

The grant/loan mix of this component and target groups are estimated as follows:

Productive Enterprise

Grants (to affected families with low or moderate income)	Rs.4,000
Loans for agriculture, animal husbandry and micro-businesses	Rs.15,000 (average)
Loans for agriculture, animal husbandry and small business (up to six employees)	Rs.35,000 (average)

Technical assistance is anticipated for baseline survey and groundwater sample analyses for environmental monitoring during the project. The estimated schedule for these surveys is one during the first year of the project and twice a year thereafter. Short-term technical assistance will also be provided for integrated pest-management training and demonstrations for extension workers and farmers.

Technical assistance will also be provided to assist in the development, monitoring and administration of the loan accounts made under the project. Such assistance may also be made available for the development of a program to enhance the ability of the Cooperative Rural Banks and Thrift and Credit Cooperatives to administer the loan program.

C. Irrigation

Project funds are available for the channel clearing and essential structural improvement to bring the irrigation systems in the North and East up to an economically feasible and sustainable level of productivity. It is anticipated that approximately 95,000 acres of major and medium-sized tank and anicut irrigation systems as well as 6000 acres of minor tank systems will be rehabilitated under the project. This figure is an estimate and may be revised subject to the completion of site surveys.

Project funds may also be used for local-hire technical assistance to manage the monitoring and reimbursement activities of this component, for environmental monitoring, and for special studies.

D. Emergency Agriculture Assistance Program

Activities through NGOs:

Phase 1: Under this new activity developed in response to the changed security situation after June 1990, USAID/Sri Lanka will enter into a Cooperative Agreement with CARE/Sri Lanka to support a program providing agricultural inputs and tools to approximately 15,000 farmers. CARE/Sri Lanka will ship approximately 1,735 tons of seeds and fertilizer, 300 water pumps, 2,572 barrels of kerosine and a small amount of gasoline and diesel fuel to Jaffna between January and June 1991 in order to stimulate widespread cultivation, good harvest and market availability of a variety of local crops at more reasonable prices than had prevailed earlier in that year.

Phase 2: Implementation of Phase 2 of CARE's program is to provide agricultural inputs to approximately 29,500 farmers in selected areas of the Northeast province enabling them to cultivate 19,500 acres with paddy and other field crops during 1991-92 Maha season. Participating farmers will be asked to repay 25% of the loans obtained through their local NGO.

During Phase 3: During Phase 3, Mullaitivu is also to be included in addition to the four previously covered districts of Jaffna, Batticaloa, Mannar, and Killinochi. Phase 3 of this program will benefit approximately 18,500 farmers to cultivate both paddy and other field crops in approximately 15,000 acres. Unlike in Phase 2, the participating farmers will be asked to repay 100% of loans that they will have obtained through their local NGOs/CARE. The project activity will end on July 31, 1993.

II. Responsibilities

The National Reconstruction Steering Committee (NRSC) is the coordinating body working attached to the Ministry of Rehabilitation and Reconstruction (MRR). The NRSC has an advisory, policy formulation, planning, coordination and monitoring role for rehabilitation activities. As such it is the principal counterpart for A.I.D. on the project with responsibility for discussing budgetary allocations and workplans, and agreeing to modifications of the financial plan.

MRR is responsible for coordinating implementation of the program with local government and with line ministries, and for coordinating the funding flow. It is anticipated that MRR will distribute the grant portion of the assistance package to the Government Agents (GA's). The GA's will disburse such funds to registered families. The loan portions of the assistance package are expected to be distributed to Rehabilitation of Persons, Property and Industries Authority (REPPA) which will then distribute the funds to loan institutions with which it works, such as the Bank of Ceylon and CRB's.

MRR is responsible for the preparation and distribution to the GA's of vouchers and registration forms, for receipt and tabulation of used vouchers, and for the allocation of expenditures to the appropriate donor account.

The Irrigation Department will be responsible for implementation of all major and medium-sized irrigation activities under the project, and the District governments will be responsible for minor irrigation rehabilitation. The distribution of A.I.D. funding flows for irrigation between the line ministries and local government will be determined by MRR and the NRSC in consultation with A.I.D.

Monitoring of all project activities is the responsibility of NRSC/MRR with the assistance of technical assistance contractors funded under the project.

USAID will provide office space for two long-term technical assistance contractors funded under the project, who will work in USAID on the project as well as with MRR and the NRSC. MRR, together with line ministries where appropriate, will provide office space for the other technical assistance contractors under the project. All other logistical support will be project-funded.

It is anticipated that A.I.D., in consultation with MRR, will contract for technical assistance as required under the project, and that procurement of commodities for the irrigation component will be managed by a procurement services agent under contract with A.I.D. or by A.I.D. directly. In this regard the GSL will provide all procurement lists, clearances and customs approvals which may be required, and provide for proper maintenance.

Other donors contributing to the GSL rehabilitation program are expected to include Australia, Netherlands, Norway, Sweden, UNHCR, and the World Bank in the housing sector, the ADB in agriculture, and the ADB and the IBRD in the small business program. Donors with irrigation projects affecting the North and East include the IBRD, Canada, and Switzerland. Other donor contributions to the rehabilitation program are estimated to be a total of \$412,000,000. It is anticipated that the NRSC and the donor group will continue to meet periodically during the course of project implementation.

The GSL contribution includes funds provided to the project equivalent to funds generated from the sale of PL480 Title I commodities and funds to be reimbursed under an A.I.D. Housing Guaranty loan program. It also includes funds and in-kind contributions for design and construction activities under the irrigation component.

III. Illustrative Financial Plan

An illustrative financial plan is attached to this Annex as Attachment 1. The plan is illustrative and changes may be made in 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 categories of funding and between line items which exceed 15% must be agreed to in writing. Future A.I.D. obligations are subject to the availability of funds and mutual agreement of the parties to proceed.

IV. Financing Methods

Disbursement of project funds for the grant and loan assistance packages will be on a reimbursement basis.

Disbursement of project funds for the irrigation component will be on a percentage of actual cost reimbursement or fixed amount reimbursement (FAR) basis as further defined in project implementation letters.

It is anticipated that suppliers of commodities and technical assistance contractors will be paid directly by A.I.D. upon receipt of the necessary documentation.

V. Evaluation and Reporting

Reporting of project progress will be detailed in Project Implementation Letters. Project progress will be the main topic for project reviews. A project evaluation will be scheduled in the latter part of calendar year 1989 to review progress to date and make any adjustments to the project that are needed. A final evaluation is scheduled in the final year of the project.

VI. Special Considerations

It is anticipated that implementation of the project will proceed as the situation in the North and East permits. The NRSC, MRR and A.I.D. will meet quarterly and more often if necessary to discuss any changes which might affect project implementation. The schedule of periodic meetings will be agreed to by NRSC and A.I.D.

Transactions entered into after May 15, 1988 are eligible for reimbursement under the Grant or for inclusion in the Grantee's contribution to the project, provided that such transactions in all other respects meet the requirements of the Grant.