

PROJECT
GRANT AGREEMENT
THE DEMOCRATIC SOCIALIST REPUBLIC OF
SRI LANKA
AND THE
UNITED STATES OF AMERICA
FOR
DEVELOPMENT STUDIES AND TRAINING

Loan and Grant Agreements

FM/LMD (if Loan)
FM/PAFD
FM/CAD
GC/ANE
ANE/Desk
ANE/TR Officer
ANE/PD Officer & File
PFC/CDIE/DI

Dated: August 28, 1987

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Project Grant Agreement

Dated: August 28, 1987

Between

The Democratic Socialist Republic of Sri Lanka ("Grantee")

And

The United States of America, acting through the Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the Parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1 Definition of Project. The Project, which is further described in Annex 1, will assist the Grantee to enhance its capacity to identify and implement development policy and programs, through development policy studies and training.

Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2 without formal amendment of this Agreement.

SECTION 2.2 Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1 The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement a sum not to exceed Two Million and Five Hundred Thousand United States ("U.S.") Dollars (\$2,500,000) ("Grant").

The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2 Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Grantee for the Project will not be less than the equivalent of U.S.\$ 2,000,000, including costs borne on an "in-kind" basis.

SECTION 3.3 Project Assistance Completion Date.

(a) The "Project Assistance Completion Date" (PACD), which is March 31, 1993 or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Conditions Precedent to Disbursement.

SECTION 4.1 First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, 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., a statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 4.2. Conditions Precedent to Disbursement for Training

Prior to disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made for training for any agency or department participating in the Project, 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., the selection procedures and criteria for such agency or department.

SECTION 4.3 Notification. When A.I.D. has determined that the conditions precedent specified in Section 4.1 and 4.2 have been met, it will promptly notify the Grantee.

SECTION 4.4 Terminal Dates for Conditions Precedent. When A.I.D. has determined that the conditions precedent specified in Section 4.1. have not been met within 90 days from the date of this Agreement, or such a 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.

Article 5: Special Covenants

SECTION 5.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Project; (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; and (d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2. Additional Special Covenant. Except as A.I.D. may otherwise agree in writing, the Grantee agrees to provide to A.I.D. a semi-annual report on the amounts budgeted and the expenditures of the Grantee contribution to the Project. The report should follow the format of the Financial Plan of this Agreement.

Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time

orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation will be financed under this Grant only on vessels under flag registry of the United States except as A.I.D. may otherwise agree in writing.

SECTION 6.2 Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Sri Lanka ("Local Currency Costs"). To the extent provided for under this Agreement, Local Currency Costs may also include the provision of local currency resources required for the Project.

Article 7: Disbursement for Foreign Exchange Costs

SECTION 7.1 Disbursement for Foreign Exchange Costs

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such good or services, or, (B) requests for A.I.D. to procure commodities or services in the Grantee's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (b) directly to one or more contractors or suppliers, committing A.I.D., to pay such contractors or suppliers, for such goods or services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless the Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement of Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in Accordance with the terms of this Agreement by submitting to A.I.D. the necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained:

(1) by acquisition by A.I.D. with U.S. Dollars by purchase;

(2) by A.I.D. requesting the Grantee to make available the local currency for such costs, and thereafter reimbursing an amount of U.S. Dollars equal to the amount of local currency made available by the Grantee.

The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Sri Lanka by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of Sri Lanka at the highest rate of exchange which, at the time of conversion is made, is not unlawful in Sri Lanka.

Article 8: Miscellaneous

SECTION 8.1 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 be deemed duly given or sent when delivered to such party at the following addresses:

To the Grantee:

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: Director, USAID, Colombo
American Embassy, Colombo
Sri Lanka

Alternate Address for cables:

USAID AMEMBASSY
COLOMBO, SRI LANKA

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

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of Director, External Resources Department, Ministry of Finance and Planning and A.I.D. will be represented by the individual holding or acting in the office of Director, U.S.A.I.D. Mission to Sri Lanka, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description in Annex 1. The names of the representatives of the Grantee with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms parts of this Agreement.

IN WITNESS WHEREOF, the Grantee 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 SOCIALIST
REPUBLIC OF SRI LANKA

GOVERNMENT OF THE
UNITED STATES OF AMERICA

by: C. Chanmugam

by: James W. Spain

Name: C. Chanmugam
Title: Secretary
Ministry of Finance &
Planning

Name: James W. Spain
Title: American Ambassador

Annex 1

Development Studies and Training Project

Amplified Project Description

A. PROJECT GOAL AND PURPOSE

The goal of the project is to increase the Government of Sri Lanka's capacity for analysis, planning and implementation in selected areas of its development programs.

The purpose of the project is to assist selected agencies to identify and implement sound development policies and programs and to provide specialized short and long term training. The project has two discrete components: development policy studies and participant training. The major objective of both components is to improve policy formulation and implementation of policy recommendations.

B. PROJECT ACTIVITIES1. Development Policy Studies:

Development Policies Studies comprises policy orientated research and studies conducted with foreign and local consultancies. The term "development policy studies" includes technical and supporting assistance to help strengthen policy analysis, formulation and implementation. Assistance under the component may also be used for the development of a data base and statistical systems.

The intent is to identify and examine policy issues of importance to Sri Lanka's development strategy. The Institute of Policy Studies by the National Planning Division of the Ministry of Finance and Planning will help articulate policy options for incorporation into planning and overall development strategy. It is intended that the overall research agenda established by the Institute, arrayed against the Project's core agenda discussed below, would identify useful areas for cooperation ranging from macro-economic management to specific strategies to operationalize policy recommendations in a particular sector. The project will support the following departments and organizations:

- 1) The Ministry of Finance and Planning, including the National Planning Division of together with its supporting institute, the Institute of Policy Studies.
- 2) The Central Bank of Sri Lanka,
- 3) The Industrial Policy Committee consisting of representatives of the Ministries of Finance and Planning (Chairman), Textile Industries, Industries and Scientific Affairs, Rural Industrial Development and Export Development, and

4) Other Ministries, departments or agencies of the Government of Sri Lanka as mutually agreed to with the External Resources Division of the Ministry of Finance and Planning

These agencies, with the assistance of USAID, will identify potential study topics through semi-annual project reviews and planning sessions. National Planning Division of the Ministry of Finance and Planning will take lead for study identification and implementation in the Ministry of Finance and Planning as well as for any studies needed to support the work of the Industrial Policy Committee. The Central Bank will take the lead for their study agenda. Other ministries study requests will be implemented by those ministries. Contracting for study requests will be approved by External Resources Division of the Ministry of Finance and Planning.

It is anticipated that study topics will come from the following five categories, based on the core agenda of the project. These categories are intended to reflect the research agendas of the Ministry of Finance and Planning, the Institute for Policy Studies, the specific interests of the Central Bank, and the Industrial Policy agenda:

Budget Management: This area includes setting priorities so as to insure the full utilization of resources currently available both at the national and at the subnational levels.

Financial Sector Management: This area includes topics on monetary policies such as domestic savings patterns and its effect on mobilization and strategies for a more effective rural credit system. This area also concentrates on policies such as the reduction of subsidies, better use of resources and the need to conserve public finances.

Export Promotion Development Strategies: This area emphasizes policy issues supporting the effectiveness of a competitive export base that capitalizes on the comparative advantage of Sri Lanka and provides incentives for the private sector.

Rationalization and Privatization of Government-Owned Enterprises: This area focuses on subjects such as rationalization and privatization of government-owned enterprises.

Socioeconomic Impacts of Economic Policy Reforms and Structural Adjustment: This area would focus on the impact of existing government policies on different socio-economic groups.

To be accepted for funding and incorporated into the annual project plan, a study should meet the following criteria:

1. Studies should have a clear objective of policy articulation and implementation: Policy studies should focus on topics with the potential to identify achievable policy recommendations within a reasonable time or show clear indications of appreciable impact on the policy debate in the sponsoring agency. Studies must stress policy alternatives, and recommend specific policy options for decision makers to choose, approve, or modify. The development of information and analytical efforts useful merely for understanding historical trends or for improving economic projections without relationship to implementation of specific policy measures would not be supported. Thus, each study should demonstrate the support or sponsorship of an agency or division with the commitment and authority to implement policy recommendations.
2. Studies should identify a development policy issue of interest to the Government of Sri Lanka in the core agenda noted above. Studies outside the agenda may be funded, if the policy issue is demonstrably critical to the pace of moving to a more market-orientated economy and meeting overall development objectives as mutually agreed to by the Grantee and USAID.
3. Studies should have an sponsoring agency with the commitment and capacity to initiate identified policy recommendations. In those cases where the subject of study would need the support of another ministry or agency to implement the recommendations, those entities should be involved in the planning of the study and the review of study findings. Thus each study should demonstrate the support or sponsorship of an agency or division with the commitment and authority to implement policy recommendations.
4. Studies which are complimentary but not duplicative of other policy research carried out by the Government or by another donor: Practical coordination of policy research with other donors, however, is encouraged and may be supported under the project.
5. Other factors which should be taken into account are whether the study:
 - a) relates to and builds on other studies financed under the Project;
 - b) builds on or reinforce other USAID-financed activities;
 - c) is eligible or appropriate for financing through another existing AID Project;
 - d) demonstrates at least a 25% contribution by the Government of Sri Lanka.

2. Participant Training:

Training financed under the project supports the institutional development of policy making institutions. Agriculture-related training may be considered but only if such training is not fundable from another source. Institutions which are eligible for training under the project include:

- 1) The National Planning Division in the Ministry of Finance and Planning
- 2) The External Resources Division in the Ministry of Finance and Planning
- 3) Other divisions and departments of the Ministry of Finance and Planning
- 4) The Central Bank of Sri Lanka,
- 5) The Department of the Census
- 6) Other Ministries relevant to the agenda of this project.
- 7) Parastatal and Public Sector Corporations where the training is supportive of privatization.

It is expected that the project will support five types of training related activities:

- 1) Staff Training Development Strategies: The development of training plans in key ministries and agencies;
- 2) Graduate Level Training: Master's degree training in the U.S.
- 3) Specialized Short-Term Training: Short-term training to focus on resolving specific implementation constraints to effective policy reform.
- 4) Specialized Visitor and Orientation Programs: Bringing senior policy makers in Sri Lanka in contact with their American counterparts.
- 5) Support Activities: Including limited English language training assistance, predeparture orientation programs, formation of an alumni association, in-country follow-on training, preparation of a Participant Directory and more systematic evaluation of the training.

C. Implementation Plan:

1. General Responsibilities:

The External Resources Division, Ministry of Finance and Planning, is the final approval agency for the training portion of the project. The External Resources Division will work with other branches of the Ministry of Finance and Planning, other ministries and Central Bank to consolidate annual training requests. The ERD, will prepare an annual workplan for USAID approval. The workplan is expected to reflect the participation of the participating agencies and Divisions. In addition, semi-annual reviews will track

progress and indicate any corrective measures. The workplan will:

- 1) forecast study and training activities planned during the coming year
- 2) estimate the timing and contribution from GSL and AID portions of the project budget.
- 3) report on the status of studies in progress and completed during the previous year

2. Development Policy Studies:

The National Planning Division and External Resources Division of the Ministry of Finance and Planning will coordinate development policy studies of interest to the Ministry of Finance and Planning. Other Ministries and the Central Bank will initiate or concur in studies concerning their organizations. Funding commitments for all studies will be approved by the External Resources Division, Ministry of Finance and Planning.

Each of the respective participating agencies will be responsible to insure that the study is compatible with the GSL policy agenda, and not duplicative of other research. The relevant Sri Lankan counterpart agency, with assistance from USAID, will prepare a complete proposal including the terms of reference, budget, and report requirements. The final proposal will contain inputs (USAID and Sri Lankan agency); measurable outputs; an implementation schedule; reporting requirements; and an identification of the type and source of any essential follow-up or follow-on activity. Study proposals will then be formally approved by USAID and by External Resources Division.

Both during and at the conclusion of study activity, results and policy recommendations will be reviewed with Senior representatives of the GSL (Planning Division-MFP, Technical Ministry, ERD, Central Bank) and USAID to facilitate policy recommendations. Consideration will also be given to identifying necessary follow-on assistance either in the context of the DST project or other projects. This may include for example, seminars, follow-on training related to the implementation of study recommendations, and meetings with senior government officials not yet directly involved in the conduct of the activity. Depending on the nature and the recommendations of each study, the project will budget funds to assist the Government of Sri Lanka publish and disseminate study results to key GSL decision makers and the general public as appropriate.

3. Training Component: The project provides funding for three types of training:

Graduate Level Participant Training: This training will be Master's degree training in the U.S. and third countries to

strengthen key development institutions by providing educational opportunities in line with the Ministry's or agency's overall staff training program. It will support priority areas where no other support is immediately available. Where available, the project will use established selection systems such as those in the Central Bank. In ministries, however, where there is no systematic training system, the project requires training selection procedures be established before funding for training is provided.

Short Term Specialized International Training: Short-term training will focus on resolving specific implementation constraints to effective policy reform. This type of training will vary and include short courses, field studies, and short term assignments to look at comparable work. The length of short-term training programs will normally not be less than two weeks nor more than six months. Conference attendance may not be funded under this Project.

As part of specialized short term training the Project also supports training/visitor programs to the United States on a topics of policy relevance. This training will focus on bringing senior policy makers in Sri Lanka in contact with their American counterparts to demonstrate how the United States has dealt with similar issues. The training will have a developmental theme(e.g., regional development; incentives to private investment, etc.) and be conducted in conjunction with the U.S. Information Agency's International Visitors' Program.

In-Country Training: The project also supports in-country training wherever possible as the most economical and cost effective way to maximize limited resources. This may take the form of enrolment at an institution for specialized instruction or specialized seminars and short courses on specialized topics supported by project funded technical assistance.

Support activities for this component are be designed to further the technical and non-technical objectives of all AID-sponsored participant training. These include limited English language training assistance, predeparture orientation programs, formation of an alumni association, in-country follow-on training, preparation of a Participant Directory and more systematic evaluation of the training. Examples of support activities include:

- (a) English language training
- (b) Predeparture orientation
- (b) Formulation of an Alumni Association.
- (d) In-country follow-on training.
- (e) Preparation of a Participant Directory.
- (f) An annual certificate presentation ceremony/reception.
- (g) More systematic evaluation and follow-up by both the Participant and his/her employing agency.

The Project will identify specific training needs in three ways:

- (a) discussions between AID and ERD and the particular Ministry, agency or department;
- (b) through studies conducted under the Project which identify skill shortages, and
- (c) through the planning and implementation of other USAID project activities or other activities of policy related agencies of the GSL.

For long-term training, External Resources Department of the Ministry of Finance and Planning (ERD), in cooperation with line Ministries and other agencies, will assess the requests received from various Ministries and agencies and prepare a consolidated training plan containing the training requested for each participant, the length and location of training (if known). Long term training will be provided at an accredited institution of higher education for a M.A. or M.S. degree. Participants will be limited to earning only one M.A. or M.S. Degree. If a participant has a previous graduate level degree, he will not be eligible for long term training under the project. Other qualifications for long term training will include meeting of all Government of Sri Lanka and USAID Colombo academic, health and English language criteria; be employed at the time of nomination in the field for which training will be given, or have assurance of such an assignment upon completion of training, and agreement between the participant and the GSL to serve for an agreed number of years upon his/her return from training. To the extent possible, English language training will be obtained from sources in Sri Lanka.

ERD and USAID will approve both long and short term training per the following criteria:

- a) consistency and complementarity with goals and the objectives of the Project;
- b) completeness of the proposals;
- c) conformity of the request with the provisions of GSL and AID regulations and policies.

USAID will process overseas training requests. Predeparture and detailed implementation requirements will be detailed in Project Implementation Letters. Prior to commencement of training, participants will enter into an agreement with the Government of Sri Lanka which obligates them 1) to return to Sri Lanka upon completion of their program, and 2) a time limitation for overseas study of no more than eighteen months, with any extensions to be approved both by AID and ERD in writing and which may not exceed six months. This agreement will be mandatory for all

long-term (over 12 months) participants and will be accompanied by a bond provided to the government of Sri Lanka in accordance with Government of Sri Lanka regulations.

4. Project Monitoring:

Project monitoring will be done via annual planning sessions and semi-annual progress reports prepared by ERD, including the participation of the participating agencies, and with the assistance of USAID. These reports will be augmented by individual reports on the outcome of each subproject submitted at completion of individual studies. ERD will be responsible for approving training requests, insuring they are not duplicative of other assistance, and tracking the necessary host country contribution for both training and studies.

5. Project Evaluation:

The Project will conduct two evaluations to focus on project objectives. After the first two years, the interim evaluation will provide the basis for the development of an implementation plan for the final three years of the project. The evaluation will specifically look at:

- a) the progress towards the project's goal, purpose and projected outputs; and
- b) the overall impact of both components to increased efficiency in government planning and implementation;
- c) the impact of development policy studies component to effect policy changes;
- d) the extent to which selection criteria have been adhered to in the implementation of both components;
- e) the relevance of training activities;
- f) specific mid course corrections for both components.

The final project evaluation is planned for the fourth year of the project. It will be undertaken by an independent team with the assistance of Mission and GSL personnel. This evaluation will assess:

- a) impact and change as a result of project sponsored activities as measured by concrete policy initiatives taken by the GSL;
- b) improved effectiveness in the development process as a result of the studies supported;
- c) improved capacity to identify development problems in the sectors supported and to bring interventions to bear on them;
- d) improved inter-ministerial coordination, cooperation and action as a result of project activities; and
- e) improved manpower as a result of training in key agencies

D. Financial Plan:

The AID contribution to the Project is intended to fund the following types of project costs:

1. Technical assistance supporting development studies
2. Other costs associated with development studies and training agreed to by AID
3. International and domestic training costs
4. Evaluations
5. In-country workshop and training costs.
6. Study reproduction and distribution costs
7. Post training support costs

The GSL contribution to the Project is intended to fund the following types of Project costs:

1. Ad-hoc coordinating units, working groups and staff salaries of the Ministry of Finance and Planning involved in policy research relevant to the Project funded studies.
2. Salaries and benefits of GSL employees on long-term training
3. Airline fares on routes served by Air Lanka for long term participants.
4. Offices and secretarial support for consultants.
5. Vehicles for consultants.
6. In-country training costs in existing institutions.
7. A proportion of the US based training costs as agreed to by AID such as salaries of participants.
8. A portion of in-country workshop costs such as per diem, in kind contributions etc.
9. Costs of in-country courses other than costs of expatriate Resource persons.
10. GSL funded studies relevant to AID funded studies.

The distribution of the project training and study resources among agencies will be agreed to by ERD and USAID, and may be adjusted in the course of Project implementation on the basis of actual utilization of Project funds and the identification of future activities.

The illustrative financial plan is attached as Attachment 1 to this Annex. 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) AID'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. Future A.I.D. obligations are subject to the availability of funds and mutual agreement of the parties to proceed.

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DEVELOPMENT STUDIES AND TRAINING
SUMMARY COST ESTIMATES

(US\$000)

CATEGORY PROJECT	Grant Obligations	A I D		GSL TOTAL**	
		Future Years Grant Obligations	AID TOTAL		
TOTAL	This Agreement	Anticipated*			
I. Technical Assistance	933	1067	2000	830	2830
II. Training	1427	1998	3425	949	4374
III. Evaluation/ Publication	40	35	75	20	95
IV. Contingency	100	400	500	201	701
TOTAL	2500	3500	6000	2000	8000

* Future obligations are subject to the availability of funds and the mutual agreement of the parties to proceed.

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

The GSL Contribution for this project is based on an exchange rate of Rs.29.46 to US\$ 1.00.

Annex 1 Attachment 2

DEVELOPMENT STUDIES AND TRAINING
 INSTITUTIONAL DISTRIBUTION OF AID FUNDED INPUTS

(US \$000)

	<u>Ministry of Finance & Planning</u>	<u>Central Bank</u>	<u>Other GSL Ministries and Entities</u>	<u>Total</u>
Long Term Training	700	600	600	1900
Short Term Training	300	250	375	925
In Country Training	180	180	240	600
Long Term Policy Research	700	350	350	1400
Short Term Policy Research	300	150	150	600
Sub-Total	2180	1530	1715	5425
Evaluation/Publication Contingency				75 500
Total AID Inputs*				6000

* Full obligation is subject to the availability of funds, and the mutual agreement of the parties to proceed.

Project Grant StandardProvisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement. The Government of the Democratic Socialist Republic of Sri Lanka is the "Cooperating Country" or "Grantee".

Article A: Project Implementation Letters

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. 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 Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Grantee will:

(a) carry out the Project 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, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

Article B: General Covenants (Continued)

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantees.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit. The Grantee will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipts and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitation 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; and

(c) afford authorized representative of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

Article B: General Covenants (Continued)

(b) that it 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 Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement ProvisionsSECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums for marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

Article C: Procurement Provisions (Continued)

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements.

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be produced on a fair and, to the maximum extent practicable, on a competitive basis.

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country

Article C: Procurement Provisions (Continued)

not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval or on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel of air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the goods tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries

Article C: Procurement Provisions (Continued)

listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-Owned Excess Property. The Grantee agrees that wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination; Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursement under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.



Article D: Termination; Remedies (Continued)

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.

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