

Public Disclosure Authorized

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CREDIT NUMBER 4613 - LK

Financing Agreement

(Second Community Development and Livelihood Improvement Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 22, 2009

Public Disclosure Authorized

CREDIT NUMBER 4613 - LK

FINANCING AGREEMENT

AGREEMENT dated October 22, 2009, entered into between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“the Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“the Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to Fifty million four hundred thousand Special Drawing Rights (SDR 50,400,000) (“the Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“the Project”);
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall: (a) carry out Part B.2 of the Project through the Ministry and jointly with PIE in accordance with the provisions of Article IV of the General Conditions; and (b) cause the PIE to carry out all other Parts of the Project in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consists of the following:
- (a) the Articles of Association and the PIE shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PIE to perform any of its obligations under the Project Agreement; and
 - (b) the Recipient or any other authority having jurisdiction shall have taken any action for the dissolution, disestablishment, or winding-up of the PIE or for the suspension of its operations, without the Association's prior approval.
- 4.02. The Additional Event of Acceleration consists of the following:
- (a) The event specified in paragraph (a) or (b) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V —EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement has been executed on behalf of the Recipient and the PIE.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the PIE and is legally binding upon the Recipient and the PIE in accordance with its terms.

- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Secretary, Ministry of Finance and Planning.

6.02. The Recipient's Address is:

Ministry of Finance and Planning
The Secretariat
Colombo 1, Sri Lanka

Facsimile:

94 11 2449823
94 11 2447633

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED at Colombo, Democratic Socialist Republic of Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By

/s/ P.B. Jayasundera
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to enhance incomes and quality of life of poor households in the poorest divisions in the territory of the Recipient through: (i) empowering the poor and developing and strengthening institutions of the poor; (ii) improving access of the poor to basic infrastructure and social services and providing support for productive activities; and (iii) developing policies, rules, systems, procedures and institutional arrangements to enable the Recipient to transfer funds directly to communities and local governments.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part A: Intra-Village Development

1. **Development and Strengthening of Village Organizations**

- (a) *Mobilization*: Carrying out an information, education, and communications campaign in all villages and estates in the Participating Districts on the Project's principles and guidelines, and provision of technical assistance, training and facilitation to Beneficiaries to assist them to form, operate and strengthen Village Organizations and Federations.
- (b) *Training and Capacity Building*. Review and refining of the Project Manuals and provision of training to Beneficiaries on the Project Manuals and on their specific duties under the Project.
- (c) *Planning and Implementation Support*. Provision of technical support to Village Organizations to assist them to identify, prioritize, prepare, and implement Sub-Projects.

2. **Village Development Fund**

Provision of Sub-Grants to Village Organizations as follows:

- (a) *Capacity Building Fund*: Provision of Sub-Grants to finance institutional, administrative, and human resource support for Village Organizations.
- (b) *Community Infrastructure and Social Services Sub-Projects*: Provision of Sub-Grants to finance Sub-Projects for community infrastructure and social services.

- (c) *Livelihood Support Fund*: Provision of Sub-Grants to enable Village Organizations to: (i) provide one time Grants to the neediest members of the community; (ii) provide skills development training loans; and (iii) establish and maintain sustainable community-owned and managed savings facilities (Village Savings and Credit Organizations or VSCOs) for the purpose of providing revolving loans to their members to finance asset creation, household needs and livelihood enhancement.

Part B: Inter-Village Connectivity Development

1. Strengthening of Pradeshiya Sabha Institutions

Provision of technical assistance and training to Pradeshiya Sabhas in order to strengthen their capacity to: (i) carry out information dissemination campaigns; (ii) mobilize Village Organizations; (iii) develop participatory plans and budgets; and (iv) deliver their services in a cost effective and demand driven manner.

2. Pradeshiya Sabha Inter-village Connectivity Fund

Provision of Grants to Pradeshiya Sabhas as follows:

- (a) for Sub-Projects for Inter-Village Infrastructure and Social Services; and
- (b) for the implementation of Institutional Strengthening Plans.

3. Inter-village Institutional and Livelihood Promotion

- (a) Provision of Sub-Grants to qualifying Federations (other than to Economic Activity Federations) and to Community Training Centers to finance institutional development activities.
- (b) Provision of Sub-Grants to qualifying Economic Activity Federations to finance productive infrastructure Sub-Projects.

Part C: Public, People and Private Sector Partnerships

- 1. Strengthening the implementation capacity of Project Participants at the divisional, district, regional and national levels through the provision of technical assistance and training.
- 2. Strengthening the capacity of the Federations to market their products and services and to form linkages with the private sector through the provision of technical assistance and training and the carrying out of studies, including but not limited to studies on supply and value chain development.

3. Piloting innovative ideas which need experimentation, learning, and incubation and that have the potential for being scaled-up and replicated, through, among other things, the development of new economic activities with value-added products for livelihood improvement, and the provision of access to information technology and communications to rural communities.

Part D: Project Management and Monitoring

1. Carrying out of Project management and coordination, and facilitation of Project implementation.
2. Carrying out of Project monitoring, reporting, evaluation and learning activities, including maintaining and upgrading the Project's management information system and carrying out baseline surveys.

Part E: Convergence and Policy Support

Provision of technical assistance and training to the Ministry, including the Samurdhi Authority, and other agencies of the Recipient engaged in carrying out the Gamaneguma Program in order to strengthen their capacity to carry out poverty reduction programs using a community driven development approach.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. For the purposes of carrying out Part B.2 of the Project jointly with the PIE, the Recipient shall maintain a unit (the Convergence and Policy Support Unit) within the Ministry, with staff in numbers and having qualifications, skills and terms of reference acceptable to the Association.
2. The Recipient shall take all necessary action to ensure that the PIE is responsible for coordination of all Project activities and for carrying out the Project.
3. The Recipient shall obtain the Association's prior consent before making any changes to the Board of Directors of the PIE or when discharging any responsibilities under the PIE's Articles of Association relating to the appointment and removal of the PIE's chief executive officer.

B. Implementation Arrangements

1. The Recipient, through the Ministry, shall:
 - (a) implement Part B.2 of the Project jointly with the PIE, and cause all other Project Participants to implement such Part, in accordance with the PIP (including the Governance and Accountability Action Plan and the Environmental Management Framework) and the PS Manual;
 - (b) not amend or waive any provision of the said documents without the Association's prior approval; and
 - (c) allocate sufficient staff with adequate resources to enable them to comply with the provisions of this Paragraph.
2. The Recipient, jointly with the PIE shall:
 - (a) prepare, by no later than October 31 of each year starting from Financial Year 2009, an annual plan for implementing Part B.2 of the Project in the following Financial Year;
 - (b) finalize the annual plan, with the Association's approval, by not later than December 31 of the Financial Year; and

- (c) thereafter implement such annual plan in a manner satisfactory to the Association.

C. Subsidiary Agreement

1. To facilitate the carrying out of the Project (other than Part B.2 thereof), the Recipient shall make part of the proceeds of the Financing available to the PIE under an agreement (the Subsidiary Agreement) between the Recipient and the PIE, under terms and conditions approved by the Association which shall include the following:
 - (a) the proceeds of the Financing shall be made available to the PIE as a Grant;
 - (b) the PIE shall commit to implement the Project and ensure that all other Project Participants implement the Project in accordance with the PIP (including the Governance and Accountability Action Plan and the Environmental Management Framework), and the Manuals as appropriate;
 - (c) the PIE shall not amend or waive any provision of the said documents without the Association's prior approval; and
 - (d) the PIE shall allocate sufficient staff with adequate resources to enable the PIE to comply with the provisions of this Paragraph.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

D. Sub-Projects and Institutional Strengthening Plans

1. The Recipient, through the Ministry and jointly with the PIE, shall make Grants for financing Sub-Projects and Institutional Strengthening Plans to Pradeshiya Sabhas under Part B.2 of the Project in accordance with eligibility criteria and procedures, on the terms and conditions and for the purposes set out in PIP and the PS Manual.
2. The Recipient shall make each Grant to a Pradeshiya Sabha under a memorandum of understanding (the MOU) to be entered into between the Ministry, the PIE and the respective Pradeshiya Sabha on the terms and conditions set out in the PS Manual which include the following:

- (a) that the proceeds of Grants under Part B.2 of the Project shall be used exclusively to finance goods, works, and services required for preparation, approval, and implementation of Sub-Projects and Institutional Strengthening Plans in accordance with terms and conditions set forth in the PIP and PS Manual; and
 - (b) that goods, works, and services for Sub-Projects and Institutional Strengthening Plans under Part B.2 of the Project shall be procured in accordance with procedures set out in Schedule 2 to this Agreement and set forth in the PIP and PS Manual, provided however that in the event of any inconsistency, the provisions of Schedule 2 to this Agreement shall apply.
- 3 The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to:
- (i) suspend or terminate the right of the Pradeshiya Sabha to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Pradeshiya Sabha's failure to perform any of its obligations under the MOU; and
 - (ii) require each Pradeshiya Sabha to: (A) carry out the supported Sub-Projects and Institutional Strengthening Plans with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines and the Environmental Management Framework; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the sub-project or implementation of the institutional development plan and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project or Institutional Strengthening Plan; and (2) at the Recipient's or the Association's or the PIE's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient, the Association and the PIE; (F) enable the Recipient, the Association and the PIE to inspect the Sub-Projects and their operation, or the activities related to the

implementation of the Institutional Strengthening Plan, and any relevant records and documents; and (G) prepare and furnish to the Recipient, the Association and the PIE all such information as the Recipient or the Association or the PIE shall reasonably request relating to the foregoing.

4. The Recipient shall exercise its rights under each MOU in such a manner as to protect the interests of the Recipient, the Association and the PIE and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any MOU or any of its provisions.
5.
 - (a) Upon entering into an MOU with a Pradeshiya Sabha as provided for in Paragraph 2 above, the Recipient shall send a notice to the Provincial Council within whose jurisdiction the Pradeshiya Sabha falls, informing the Provincial Council of the MOU and its contents.
 - (b) The Recipient shall inform the Provincial Council within whose jurisdiction a Pradeshiya Sabha falls of each fund release to the Pradeshiya Sabha under an MOU.

E. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. Land Use and Acquisition

1. The Recipient shall ensure that:
 - (a) Part B.2 of the Project shall be implemented as far as reasonably practicable on publicly-owned land, using exclusively land free from squatters, encroachments, or other encumbrances;
 - (b) Part B.2 of the Project shall not involve any involuntary land acquisition; and
 - (c) where unavoidable, land acquisition shall be kept to a minimum, and undertaken exclusively on the basis of mutually agreed sales transactions or voluntary land donations, and in accordance with guidelines and procedures set forth in the PIP and the PS Manual.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate and cause the PIE to monitor and evaluate the progress of the Project and prepare consolidated Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Schedule 5 to this Agreement. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. The Recipient shall:
 - (a) not later than December 31, 2012, jointly with Association and the PIE carry out evaluations: (i) of the readiness of the Samurdhi Authority to implement the Project and the succeeding phases of the Program in accordance with the rules and procedures set out in the PIP and the Manuals; and (ii) of the sustainability of Village Organizations and the Federations to operate and maintain Sub-Projects; and
 - (b) not later than June 30, 2013 and based on the findings of these evaluations, prepare jointly with the PIE a proposal on the implementation arrangements for the remaining Project implementation period for consideration by the Association.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall cause the PIE to prepare as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one Financial Year. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of goods and works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	National Competitive Bidding as provided for in the Recipient's Procurement Guidelines for Goods & Works, dated 2006, subject to the provisions set forth in Schedule 4 to this Agreement
(b)	National Shopping
(c)	Direct Contracting
(d)	Community Participation

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality-Based
(b)	Fixed Budget
(c)	Consultant's Qualifications
(d)	Single Source
(e)	Individual consultant

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Grants and Sub-Grants	40,300,000	75%
(2) Goods, works, consultants' services, training and Incremental Operating Costs	10,100,000	65%
TOTAL AMOUNT	50,400,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$7,500,000 equivalent may be made for payments made prior to this date but on or after January 1, 2009, for Eligible Expenditures.
2. The Closing Date is March 31, 2014.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15 commencing September 15, 2019, to and including March 15, 2029	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

SCHEDULE 4

National Competitive Bidding Procedures

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non consultant services procured under the National Competitive Bidding procedures shall be subject to the following requirements:

1. Only the Sri Lanka-specific Standard Bidding Documents (SBD) as agreed with the Association (and as amended from time to time and agreed with the Association) will be used.
2. Invitations for bids will be advertised in at least one widely circulated national newspaper, and bidding documents will be made available at least twenty-one (21) days before, and issued up to, the deadline for submission of bids.
3. Bidding documents will be issued by mail or in person to all who are willing to pay the required fee.
4. Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.
5. There will not be any restrictions on the means of delivery of the bids, which shall be either through post or hand-delivered. Electronic submissions will not be permitted.
6. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders (including state-owned enterprises or small-scale enterprises) in the bidding process. No special preferences will be accorded to any enterprises or bodies.
7. Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding documents (the bidding documents will indicate the date, time and place of bid opening).
8. Evaluation of bids will be made in strict adherence to the criteria disclosed in the bidding documents, in a format and within the specified period agreed with the Association, and within the bid validity period specified in the bidding documents.
9. Contracts will be awarded to the lowest evaluated responsive bidder.

10. Bids will not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association.
11. Except with the prior concurrence of the Association, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.
12. Re-invitation of bids will not be carried out without the prior concurrence of the Association.
13. Except in cases of *force majeure* or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed without the prior concurrence of the Association: (i) for the first request for extension if it is beyond eight weeks; and (ii) for all subsequent requests for extension irrespective of the period.
14. All bidders and contractors shall provide bid and performance securities as required in the bidding and contract documents.
15. A bidder's bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract under which they are furnished.
16. Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association.

Schedule 5

Monitorable Performance Indicators

The indicators referred to in Schedule 2, Section II Paragraph A.1(a) of this Agreement are as follows:

Project Outcome Indicators:

At least 30 % increase in incremental income against base year for 50 % of targeted households by the end of Project.

At least 70 % of households benefiting from improved community infrastructure and social services Sub-Projects.

Intermediate Outcome indicators specific to Phase II

At least 70% of PS have implemented Sub-Projects in accordance with the agreed rules and in a demand-driven way.

At least 70% of PS have developed Participatory process and social accountability mechanism including positive score cards as included in the Institutional Strengthening Plan.

At least 50% of Project villages benefit from linkages with other government program such as nutrition, youth, agriculture, environment, samurdhi livelihood and disability.

At least 50% of Village Organization Federations and Village Savings and Credit Organization federations are rated as A and/or B, and are providing the services for livelihood promotion¹ to their members.

Intermediate Outcome Indicators

Component A: Intra Village Development

At least 80% of completed sub-projects (and ratified by the Maha Sabha) that are operated and maintained by VOs.

At least 80% of VSCOs with an on time repayment rate of 95% and above and PAR of less than 5% and on both internal and external loans.

At least 80 % of VOs with Savings and Credit organizations are covering the operational costs within three years.

¹ This would include employment, IT-shed, micro-insurance, and market information.

At least 65 % of households in the poor and poorest category as identified by bottom half of targeted households as identified in PIP (participatory identification of poor and poorest) have accessed at least one VSCO loans and engaged in the economic activities.

At least 75% of the special group beneficiaries targeted (disabled, one-time grantee, vulnerable youth, aged, orphans) have benefitted from livelihood funds and started either employment and/or income generating activities.

At least 50% of decision making positions (Chairperson or Treasurer of various sub-committees) in all community organizations are occupied by women.

At least 50% of eligible youth received skills enhancement and have been linked to employment.

At least 75% of village organizations graded as “A and B”.

At least 50% of village organizations have received positive scores in community performance assessment (CAP) on yearly basis.

Component B: Inter-Village connectivity Development

At least 70% of Pradeshiya Sabhas have accessed funds and procedures and have implemented at least one cluster level sub-project as per the agreed rules.

At least 70% of Village Organizations covered during Phase 1 have formed network of federations (with at least 50% of HHs) at cluster and district level and have been linked to private sector and/or other partners for income generation/employment activities.

At least 50% of the Federations (including VSCO federations) established are covering their operation and management costs within three (3) years of operation.

At least 50% of CPs (as selected in CP center roster) earning increased income (at least fifteen (15) days a month) through providing services to other communities.

Component C: People, Public and Private Sector’s Partnership

At least twelve (12) partnerships established and linked with the federations.

At least 70% of villages have either leveraged or regenerated at least 40 % of the original VDP funds².

² This will be done through the public and private agencies, including commercial banks

Component D: Project Management and Monitoring

Gemi Diriya Foundation (GDF) has a Grievance redressal system functioning; and 80% of complaints received have been addressed.

Community Operational Manual (COM) is revised annually incorporating recommendations of process monitoring and other field feedback forum.

At least 70% of process monitoring recommendations implemented by management through taking actions.

Governance and Accountability Action Plan (GAAP) recommendations implemented and reviewed annually with the representatives of the communities.

Finance and audit committee of the board conduct minimum four reviews per year.

At least 70% of Hubs and District and national/regional facilitation teams receiving positive scores from communities through CAP.

Component E: Convergence and Policy Support with National Programs

Government of Sri Lanka (GOSL) has issued a government order adopting the village level institutional mechanism and procedures as described in the COM at the national level and applicable for other poverty reduction and developmental program.

At least 50% of Gama Neguma and Samurdhi villages receiving and managing direct funds and planning and implementing, and maintaining sub-projects according to the rules set out in the COM.

Participatory process and social accountability tools as developed by the Project are practiced by at least 50% of GN demonstration and Samurdhi villages covered under Phase II.

APPENDIX

Section I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary” means an individual, a group of individuals or community, including a community of estate workers, who has received or will receive a Grant, Sub-Grant or other assistance under the Project or for the benefit of whom a Sub-Project is or will be carried out.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Operational Manual” and “COM” mean the operational manual dated April 30, 2009, adopted by the PIE and found acceptable by the Association which sets out with respect to the preparation, implementation, and monitoring of Sub-Projects by Village Organizations, including estate communities: (a) the roles and responsibilities of individuals, communities and public agencies; (b) the processes, and procedures to be followed; (c) environmental and social safeguard measures to be taken; and (d) financial management and procurement methods and social accountability measures to be used; as such manual shall be revised from time to time with the prior agreement of the Association.
5. “Community Professional Learning and Training Center” and “Community Training Center” mean a community level resource center set up to provide community to community services and technical support under Part A of the Project as provided for in the CP Manual.
6. “CP Manual” means the Community Professionals Learning and Training Manual dated April 30, 2009, adopted by the PIE and found acceptable by the Association which sets out the terms and conditions for the establishment and operation of Community Training Centers and for the provision of services through such Centers, as such manual shall be revised from time to time with the prior agreement of the Association.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
8. “District Facilitation Team” means the team to be maintained by the PIE in each Participating District for the purposes of carrying out Project activities.

9. “Divisional Facilitation Team” means the team to be maintained by the PIE in each Division to provide technical and other support to village communities and Village Organizations in applying for Sub-Grants and implementing Sub-Projects.
10. “Economic Activity Federation” means a rural community-based voluntarily constituted group of Beneficiaries with a common interest in the production of goods or services constituted for the purposes of livelihood support or entrepreneurship, that satisfies the eligibility criteria in the PIP and EAF Manual for receiving Sub-Grants under Part B. 3(b) of the Project, and other assistance under the Project.
11. “EAF Manual” means the Economic Activity Federations Manual dated April 30, 2009, adopted by the PIE and found acceptable by the Association with sets out the rules and procedures for the creation and maintenance of Economic Activity Federations and the criteria and terms and conditions for providing Sub-Grants to qualifying Economic Activity Federations under Part B.3(b) of the Project. as such manual shall be revised from time to time with the prior agreement of the Association.
12. “Environmental Management Framework” means the Environmental and Social Safeguards Framework dated April 20, 2009, adopted by the Recipient and acceptable to the Association, which sets out, among other things: (i) key principles for social and environmental management of Sub-Projects; (ii) procedures to screen and process Sub-Projects for significant social and environmental impacts, and to assist in mitigating these impacts; (iii) procedures to ensure that these principles are properly applied; and (iv) guidelines for capacity building and monitoring, which have been incorporated into the PIP.
13. “Federation Manual” means the manual dated April 30, 2009, adopted by the PIE and acceptable to the Association with sets out the rules and procedures for the establishment and operation of Village Organization Federations and the criteria and terms and conditions for providing Sub-Grants to qualifying Village Organization Federations under Part B.3(a) of the Project as such manual shall be revised from time to time with the prior agreement of the Association.
14. “Federations” means, collectively, Village Organization Federations, Village Savings and Credit Organization Federations, and Economic Activity Federations.
15. “Financial Year” means the Recipient and the PIE’s financial year commencing on January 1 in each year.

16. “Gamaneguma Program” means the program described in the Recipient’s 10-Year Development Framework, “Mahinda Chintana-Vision for a New Sri Lanka” published in February 2007.
17. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
18. “Governance and Accountability Action Plan” means the action plan dated April 30, 2009, adopted by the Recipient and the PIE and found acceptable by the Association.
19. “Grant” means financing made, or proposed to be made, to a Pradeshiya Sabha under Part B.2 of the Project to finance goods, works or services for carrying out a Sub-Project or Institutional Strengthening Plan.
20. “Incremental Operating Costs” means incremental recurrent expenditures incurred on account of the Project for traveling and subsistence expenses, office supplies, vehicle rental charges (including insurance), vehicle operating charges (fuel, maintenance, and insurance), maintenance of office equipment, telephone and other communications charges, office rent, bank charges, advertising costs, and salaries and contractual allowances of contract staff, honorarium for Board of Directors of the PIE but excluding salaries of officials of the Recipient's civil and public service.
21. “Institutional Strengthening Plan” means a plan for the institutional strengthening of a Pradeshiya Sabha for which financing in the form of a Grant is made available under Part B.2 of the Project.
22. “Manuals” means, collectively, the Community Operational Manual, the Community Professional, Learning and Training Operational Manual, the Village Savings and Credit Organization Federation Manual, the Federation Operational Manual, the EAF Manual, and the PS Manual.
23. “Ministry” means the Recipient’s Ministry of Nation Building and Estate Infrastructure Development and any successor thereto.
24. “National Project Team” means the PIE team at the national level for coordinating and implementing the Project.
25. “Participating District” means a district in which a Project activity is being or will be carried out.
26. “Participating Division” means an administrative division within a Participating District.

27. “PS Manual” means the Pradeshiya Sabha Operational Manual for Interconnectivity Development dated April 30, 2009, adopted by the Recipient and the PIE and acceptable to the Association containing with respect to the preparation, implementation, and monitoring of Sub-Projects under Part B.2 of the Project: (a) the roles and responsibilities of individual agencies; (b) the processes, and procedures to be followed; (c) environmental and safeguard measures to be taken; and (d) financial management and procurement methods and social accountability measure to be used, as such manual shall be revised from time to time with the prior agreement of the Association.
28. “MOU” means a memorandum of understanding to entered into between the Recipient, through the Ministry, the PIE and a Pradeshiya Sabha as provided for in Section I Paragraph D.2 of Schedule 2 to this Agreement and pursuant to which the Recipient through the Ministry shall make a Grant to the Pradeshiya Sabha under Part B.2 of the Project.
29. “Pradeshiya Sabha” means a local elected authority constituted under the Pradeshiya Sabha Act (No. 15 of 1987).
30. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
31. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 30, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
32. “Program” means the Recipient’s program described in a letter from the Recipient to the Association dated February 13, 2004, whose objective is to strengthen the Recipient’s decentralized community development strategy and develop the village as a center for national development through an integrated total village development program.
33. “Project Agreement” means the agreement between the Association and the PIE of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
34. “Project Implementation Plan” and “PIP” mean the plan for implementation of the Project dated April 30, 2009, adopted by the PIE and the Recipient and acceptable to the Association, as amended from time to time with the Association’s agreement, containing, among other things: (i) details regarding the categories of Sub-Projects, and the Sub-Project cycle; (ii) criteria for selecting Beneficiaries for Grants, Sub-Grants and other assistance under the Project; (iii) terms and conditions for Grants and Sub-Grants, and criteria for monitoring and evaluation of activities; (v) the monitoring and performance indicators; (vi) the Governance and Accountability Action Plan; and (vii) the Environmental

Management Framework, provided, however, that in the event of a conflict between this Agreement and the PIP, the provisions of this Agreement shall prevail.

35. “PIE” means the Gemi Diriya Foundation, a company duly incorporated and registered under the Companies Act, No 7 of 2007 of the Recipient with which the Association has entered into a Project Agreement of even date herewith.
36. “Project Participant” means an individual, group or entity that is involved in carrying out an activity financed in whole or in part out of the proceeds of the Financing.
37. “Provincial Council” means a Provincial Council having jurisdiction over a province of the Recipient.
38. “Samurdhi Authority” means the independent authority established under the Ministry by the Recipient’s Samurdhi Authority Act No. 30 of 1995.
39. “Sub-Grant Agreement” means the agreement entered into or to be entered into between the PIE and a Beneficiary governing the terms and conditions on which a Sub-Grant is made.
40. “Sub-Grant” means financing made, or proposed to be made, to a Beneficiary under Parts A.2 and B.3 of the Project.
41. “Sub-Project” means a specific development project, scheme or other activity for which financing in the form of a Sub-Grant or Grant is made available under the Project, but excluding activities financed by the proceeds of one time Grants made under Part A.2(c)(i) of the Project.
42. “Subsidiary Agreement” means the agreement referred to in Paragraph C of Section I of Schedule 2 to this Agreement pursuant to which the Recipient shall make available to the PIE part of the proceeds of the Financing.
43. “Village Organization” and “VO” mean a rural community based organization, association, society, community of estate workers, or other group duly constituted under the laws of the Recipient that satisfies the eligibility criteria in the PIP and Community Operational Manual for receiving Sub-Grants and other assistance under the Part A of the Project.
44. “Village Organization Federation” means a collection of Village Organizations that satisfies the eligibility criteria in the PIP and the Federation Operational Manual for receiving Sub-Grants and other assistance under the Project.
45. “Village Savings and Credit Organization” and “VSCO” mean an organization constituted by a Village Organization for the purposes of providing savings and loan services to its members, as provided for in the Community Operational Manual.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005, (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. Refinancing Preparation Advance

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. Suspension by the Association

... (1) *Ineligibility.* The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”