

CONFORMED COPY

GRANT NUMBER H078- CE

Development Grant Agreement

**(Community Development and Livelihood Improvement “Gemi Diriya”
Project)**

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 29, 2004



GRANT NUMBER H078- CE

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated July 29, 2004, between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated February 13, 2004, from the Recipient describing a program of objectives, policies, and actions designed to strengthen the Recipient's decentralized community development strategy (the Program) and declaring the Recipient's commitment to the execution of the Program;

(B) the Recipient has requested that the Association support its execution of the Program through a series of grants and other financing instruments for which it is eligible over a period of twelve years, the proceeds of such grants to be utilized by the Recipient for the carrying out of the Program;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), which Project forms the first phase of the Program, has requested the Association to assist in the financing of the Project;

(D) the Gemi Diriya Foundation, a company incorporated and registered under the laws of the Recipient, will carry out the Project, and, for this purpose, the Recipient will make available to the Gemi Diriya Foundation the proceeds of the grant under Article II of this Agreement (the Grant); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions) with the modifications set forth in Schedule 3 to this Agreement constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective

meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary” means a community or a group of individuals, to whom, or for whose benefit, a Sub-Project is implemented or proposed to be implemented;

(b) “Community Operational Manual” means the operational manual adopted by each Village Organization containing, among other things, the roles and responsibilities of individual agencies, processes, and procedures for preparing, implementing, and monitoring Sub-Projects, environmental and safeguard measures, and financial management and procurement methods;

(c) “District Facilitation Team” means the Project’s coordinating and monitoring team at the district level;

(d) “Divisional Facilitation Team” means a team at the divisional level that shall facilitate and assist the communities in planning, implementing, and monitoring the Project;

(e) “Environmental Management Framework” means the Recipient’s Environmental and Social Safeguards Framework, satisfactory 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;

(f) “Eligible Categories” means Categories (1), (2), (3), (4), (5), and (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(h) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of the Project Agreement;

(i) “Fiscal Year” means the Recipient’s fiscal year commencing on January 1 and ending on the following December 31;

(j) “Foundation” means the Gemi Diriya Foundation, a company incorporated and registered under the Sri Lanka Companies Act (No. 17 of 1982), which is responsible for carrying out the Project;

(k) “Grama Niladhari Divisions” means administrative units in each division as described in the Implementation Plan and the Community Operational Manual;

(l) “Implementation Plan” means the Recipient’s Project Implementation Plan, 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 Village Organizations and Support Organizations for Project activities; (iii) terms and conditions for Sub-Grants, and criteria for monitoring and evaluation activities; (iv) implementation, administration, and accounting manuals for project implementation, including disbursement and procurement arrangements, work plans, and training plans; and (v) the monitoring and performance indicators, provided, however, that in the event of a conflict between this Agreement and the Implementation Plan, the provisions of this Agreement shall prevail;

(m) “Maha Sabha” means a general body including all the households to be covered by a Village Organization;

(n) “Ministry of Samurdhi” means the Ministry of Samurdhi and Poverty Alleviation;

(o) “National Project Team” means the team at the national level for coordinating and implementing the Project;

(p) “Non-Governmental Organization” or “NGO” means a non-governmental organization operating in the Recipient’s territory and under the Recipient’s laws, which has met the eligibility criteria set out in the Implementation Plan;

(q) “Pradeshiya Sabha” means a rural local authority constituted in each Provincial Council under the Pradeshiya Sabha Act (No. 15 of 1987);

(r) “Pradeshiya Sabha Memorandum of Understanding” means the memorandum of understanding between Pradeshiya Sabhas and the Foundation;

(s) “Project Agreement” means the agreement between the Association and the Foundation 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;

(t) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this agreement;

(u) “Special Account” means the account referred to in Part B of Schedule 1 to this agreement;

(v) “Sub-Grant” means financing made, or proposed to be made, to a Village Organization to finance goods, works, consultants’ services, and training for the carrying out of a Sub-Project;

(w) “Sub-Grant Agreement” means the agreement between the Foundation and each Village Organization governing the terms and conditions on which a Sub-Grant is made;

(x) “Sub-Project” means a specific development project or scheme for which financing in the form of a Sub-Grant is made available under Parts A and E of the Project;

(y) “Subsidiary Grant Agreement” means an agreement to be entered into between the Recipient and the Foundation governing the terms and conditions under which the Recipient will make available the Grant proceeds to the Foundation;

(z) “Support Organizations” means any NGO, Village Organization, consulting firms, and individuals that have met the eligibility criteria set out in the Implementation Plan; and

(aa) “Village Organization” means any rural community based organization, association, society, non-governmental organization, or user group constituted under, or governed by, the Companies Act (No. 17 of 1982), the Cooperative Act (No. 5 of 1982), the Society Act (No. 55 of 1949), the Agrarian Development Act (No. 48 of 2002), and the Voluntary Social Service Organization Act (No. 31 of 1980) that satisfies the eligibility criteria in the Implementation Plan.

ARTICLE II

The Grant

Section 2.01. The Association agrees to grant to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirty-four million, two hundred thousand Special Drawing Rights (SDR 34,200,000).

Section 2.02. The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, and services to be financed out of the proceeds of the Grant.

Section 2.03. The Closing Date shall be March 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant not withdrawn from time to time at a

rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.05 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on April 1 and October 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall cause the Foundation to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and rural development practices, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

Section 3.02. (a) The Recipient shall make available proceeds of the Grant, allocated in accordance with Schedule 1 to this Agreement, to the Foundation under a Subsidiary Grant Agreement to be entered into between the Recipient and the Foundation, under terms and conditions approved by the Association.

(b) The Recipient shall exercise its rights under the Subsidiary Grant Agreement and in such manner as to protect the interests of the Recipient and the Association, comply with its obligations under this Agreement, and accomplish the purposes of the Grant, and except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.03. The Recipient shall cause the Foundation and all other project agencies and teams to implement the Project in accordance with the Project Implementation Plan, the Community Operational Manual, and the Environmental Management Framework agreed with the Association, and except as the Association shall otherwise agree, the Recipient shall not amend or waive any provision thereof if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

Section 3.04. The Recipient shall take all necessary action to ensure that the Foundation remains responsible for management and coordination of project activities.

Section 3.05. The Recipient shall ensure the Memorandum and Articles of Association of the Foundation shall not be amended, suspended, abrogated, repealed, or waived without the Association's prior consent.

Section 3.06. The Recipient shall nominate ordinary members and directors of the Foundation in accordance with the Foundation's Memorandum and Articles of Association after prior consultation with the Association.

Section 3.07. The Recipient shall obtain the Association's prior consent when discharging any responsibilities under the Foundation's Memorandum and Articles of Association relating to the appointment and removal of the Foundation's chief executive officer.

ARTICLE IV

Financial Covenants

Section 4.01. The Recipient shall cause the Foundation to establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources, and expenditures related to the Project.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified, namely that:

(a) any action shall have been taken or any omission shall have been made that would materially reverse the Program's objectives or any actions taken under it;

(b) the Foundation shall have failed to perform any of its obligations under the Project Agreement;

(c) as a result of events which have occurred after the date of the Development Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Foundation will be able to perform its obligations under the Project Agreement;

(d) the Memorandum and Articles of Association shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Foundation to perform any of its obligations under the Project Agreement; and

(e) the Recipient or any other authority having jurisdiction shall have taken any action for the dissolution, disestablishment, or winding-up of the Foundation or for the suspension of its operations, without the Association's prior approval.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraphs (a), (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Recipient; and

(b) the events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as additional matter, within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely, that the Project Agreement has been duly authorized and ratified by the Foundation, and is legally binding upon the Foundation in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Secretary, Ministry of Finance, or the Director General, External Resources Department, Ministry of Policy Development and Implementation, of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
The Secretariat
Colombo 1, Sri Lanka

Cable address:	Telex:	Facsimile:
449823 SECMINFIN	FINMIN 21409	94-1-
	FORAID 21232	94-1-447633

For the Association:

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

Cable address:	Telex:	Facsimile:
6391 INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ PUNCHI B. JAYASUNDARA

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ PETER C. HARROLD

Country Director, Sri Lanka
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, consultants' services, and training financed through Sub-Grants	22,800,000	95%
(2) Works	400,000	80%
(3) Goods	900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(4) Training and Workshops	3,300,000	100%
(5) Consultants' services (including audit) expenditures	2,300,000	100% of foreign expenditures and 80% of local expenditures for consultant services by firms and 75% of local expenditures for consultant services by individuals

<u>Category</u>	<u>Amount of the Grant allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental Operating Costs	1,700,000	80% until December 31, 2006; 70% from January 1, 2007 until December 31, 2008; and 60% thereafter
(7) Unallocated	2,800,000	
TOTAL	<u>34,200,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient, provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”; and

(c) the term “incremental operating costs” means incremental recurrent expenditures incurred on account of the Project for per diems, office supplies, vehicle rental charges (including insurance), motorcycle operating charges (fuel, maintenance, and insurance), maintenance of office equipment, telephone and other communications charges, office rent, salaries of contract staff, but excluding salaries of officials of the Recipient's civil and public service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,300,000 may be made on account of payments made for expenditures before that date but after August 31, 2003.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures incurred for: (i) contracts for goods costing less than \$250,000 equivalent each; (ii) contracts for goods or works costing less than \$100,000 equivalent each financed under a Sub-Project; (iii) contracts for civil works costing less than \$500,000 equivalent each; (iv) contracts with consulting firms costing less than \$100,000 equivalent each; (v) contracts with individual consultants costing less than \$50,000 equivalent each; (vi) contracts with consulting firms or individual consultants costing less than \$50,000 equivalent each financed under a Sub-Project; (vii) all training and workshops; and (viii) all Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

6. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in its central bank on terms and conditions satisfactory to the Association for carrying out the Project.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Gemi Diriya Foundation shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of the Project Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient and the Guarantor of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an

amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US\$3,800,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

This Project's objective is to assist the Recipient in its efforts to improve the livelihood and quality of life of its rural communities in the Uva, Sabaragamuwa, and Southern provinces. This objective will be achieved through: (a) devolving decision-making power and resources to community organizations; (b) strengthening selected local governments that demonstrate responsiveness and accountability to rural communities; and (c) working with federations of Village Organizations, the private sector, and NGOs on economic empowerment to increase the size and diversity of livelihood.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

Part A: Village Development

1. Development and Strengthening of Village Organizations

Activities to be financed under this component shall include: (i) facilitation support to communities by the Divisional Facilitation Team; (ii) support by resource persons, the Support Organizations, and other relevant institutions with expertise in capacity building; (iii) workshops and training for community members, Village Organizations, and facilitators; (iv) capacity-building of para-professionals; (v) technical support to develop private sector linkages; (vi) support to develop employment agency connections by linking potential youth to employment opportunities; and (vii) technical support to establish and operate Village Organizations, federations, and savings and loan organizations.

2. Community Sub-Projects

This component shall finance the following activities:

- (i) establishing and operating Capacity-Building Funds to provide institutional, administrative, and human resource support for Village Organizations;
- (ii) technical assistance to Village Organizations for preparing and developing Sub-Projects, implementation of activities financed by Sub-Projects, and monitoring and evaluation functions; and

- (iii) developing sustainable community-owned and managed savings and grant facilities for communities to engage in various livelihood-support activities.

Part B: Institutional Strengthening

1. Activities to support capacity-building and training in national, district, and divisional project teams.
2. Capacity-building activities and facilitating the involvement of Support Organizations and the private sector in expanding livelihoods options for rural communities.
3. Establishing and strengthening a monitoring and learning system for project agencies at all levels.

Part C: Innovation Seed Fund

Piloting innovative ideas which need experimentation, learning, and incubation that have the potential for being scaled-up and replicated, including, 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 communication to rural communities.

Part D: Project Management

Coordination and management of project activities.

Part E: Village Self-Help Learning Initiative

Implementation of the village self-help learning initiative pilot in selected areas, through Sub-Projects and technical assistance and training, to test an institutional set-up that operationalizes participatory planning, thereby empowering effective decision-making by communities and increasing their access to resources and services.

* * *

The Project is expected to be completed by September 30, 2008.

SCHEDULE 3

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05 and Article VII, are deleted in their entirety.

2. Wherever used in the General Conditions, the following terms are modified to read as follows:

(a) The term “Borrower” is modified to read “Recipient”.

(b) The term “Credit” is modified to read “Grant”.

(c) The term “credit” is modified to read “grant”; except that where used in Sections 2.03(b), 6.02(a)(ii) and 6.02(c)(i), as modified below, the term “credit” shall continue to read “credit”.

(d) The term “Credit Account” is modified to read “Grant Account”.

(e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

3. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable:

(a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraphs (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

- (c) Section 4.03 and its heading are modified to read as follows:

“Section 4.03 Amount of the Grant.

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

4. Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02(a)(ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02(c)(i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

5. Paragraph (c) of Section 9.06 of the General Conditions is modified to read as follows:

“(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Recipient shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant.”

6. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

7. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”

Vikram Raghavan

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March 31, 2004 11:01 AM