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Investing in rural people

The Democratic Socialist Republic of Sri Lanka

Smallholder Tea and Rubber Devitalization
(STARR) Project

Negotiated financing agreement

Executive Board — 116th Session
Rome, 16 -17 December 2015

For: Information

Negotiated financing agreement:

"Smallholder Tea and Rubber Devitalization (STARR) Project "

(Negotiations concluded on 26 November 2015)

Loan Number: [click and insert number]

Project Title: Smallholder Tea and Rubber Revitalization (STARR) Project

The Democratic Socialist Republic of Sri Lanka (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

(each a "Party" and both of them collectively the "Parties")

hereby agree as follows:

Section A

1. The following documents collectively form this Agreement: this document, the Project Description and Implementation Arrangements (Schedule 1) and the Allocation Table (Schedule 2).
2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, amended as of April 2014, and as may be amended hereafter from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.
3. The Fund shall provide a Loan to the Borrower (the "Financing"), which the Borrower shall use to implement the Project in accordance with the terms and conditions of this Agreement.

Section B

1. The amount of the Loan is 18 450 000 SDR (eighteen million four hundred and fifty thousand Special Drawing Rights).
2. The loan is granted on blend terms, with interest on the principal amount outstanding at a fixed rate of 1.25% per annum, plus a service charge of 0.75% per annum. The loan will have a maturity period of 25 years, including a grace period of five years starting from the date of approval by the Executive Board of IFAD.
3. The Loan Service Payment Currency shall be the USD.
4. The first day of the applicable Fiscal Year shall be 1 January.
5. Payments of principal and interest shall be payable on each 15 May and 15 November.

6. There shall be a Designated Account (DA) at the Central Bank of Sri Lanka. The Borrower, through the Project Management Unit (PMU), will open two separate Project Accounts at PMU level at a commercial bank acceptable to both IFAD and the Borrower, to deposit funds received from IFAD through the DA and counterpart funds received from the General Treasury.

7. The Borrower shall provide counterpart financing for an amount estimated at thirty-two million eight hundred thousand United States Dollars (USD 32 800 000) corresponding to subsidies related to the national ongoing tea and rubber replanting programme, taxes, and other expenditures as defined in the AWPBs.

Section C

1. The Lead Project Agency shall be the Ministry of Plantation Industries.
2. The following are designated as additional Project Parties: Tea Smallholding Development Authority (TSHDA) and Rubber Development Department (RDD).
3. The Project Completion Date shall be the sixth anniversary of the date of entry into force of this Agreement.

Section D

The Loan will be administered by the Fund and the Project supervised by the Fund in collaboration with the Borrower.

Section E

1. The following are designated as additional general conditions precedent to withdrawal:
 - (a) a DA shall have been opened as described in section B6 hereto;
 - (b) two Project Accounts at PMU level shall have been opened as described in section B6 hereto;
 - (c) the Project Director and the Finance Manager shall have been duly appointed/designated and received prior no objection by the Fund; and
 - (d) a draft Project Implementation Manual (the "PIM"), as referred to in Schedule 1 to the Agreement, shall have been duly submitted and received the no objection by the Fund.

2. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

Director General
Department of External Resources
The Secretariat
Colombo 01
Sri Lanka
T P No: 0094 11 24846693
Fax No: 0094 11 24476633

For the Fund:

The President
International Fund for Agricultural Development
Via Paolo di Dono 44
00142 Rome
Italy

This Agreement, dated [click and type], has been prepared in the English language in two (2) original copies, one (1) for the Fund and one (1) for the Borrower.

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

[insert NAME of the Authorized Representative]
[insert his title]

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

Kanayo F. Nwanze
President

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. **Target Population.** The Project shall benefit about 32 000 smallholder households mainly in the eight districts of Ampara, Moneragala, Badulla, Galle, Matara, Kandy, Nuwara Eliya and Ratnapura (the "Project Area").
2. **Goal.** The goal of the Project is to enable poor rural people to improve their food security, increase their incomes and strengthen their resilience.
3. **Objectives.** The objective of the Project is to develop more productive, profitable and resilient economic activities of tea and rubber smallholders in the Project Area.
4. **Components.** In addition to the Project Management component, the Project shall consist of the following Components: (A) tea smallholders' development, (B) rubber smallholders' development, and (C) inclusive rural finance.

II. Implementation Arrangements

5. Organisation and management

Lead Project Agency. The Ministry of Plantation Industries (MPI) shall be the Lead Project Agency and shall have overall responsibility for the implementation of the Project. Among other things, the Lead Project Agency will chair the National Steering Committee.

National Steering Committee (NSC). Headed by the Secretary of MPI or his alternate, a NSC shall be established to provide the overall policy and administrative support, coordination and direction to the Project in accordance with this Agreement. The rest of the membership shall be drawn from, inter alia, core development and finance departments, implementing departments, the private sector including the banking sector and the Farmers representatives. The NSC will meet minimum once a year to approve the AWBP.

Project Management Unit (PMU). A PMU shall be established and operate as an autonomous institution headed by a Project Director under the guidance of the NSC, and shall be responsible for daily implementation of the Project, including Project planning and budgeting, coordination, monitoring, procurement and annual audits. The PMU shall be composed of the Project Director, a Finance Manager, a procurement officer, and Monitoring and Evaluation officer as well as a Public Private Partnership (PPP) Linkages Coordinator, and necessary support staff. The Fund's no objection shall be received before the appointment or dismissal of the Project Director and other key Project personnel (Finance Manager, a procurement officer, and Monitoring and Evaluation officer as well as a PPP Linkages Coordinator).

Service providers/implementing partners. The main implementing partners in the Project shall be (i) Private sector, (ii) Bank of Ceylon and People's Bank, (iii) TSHDA, (iv) and RDD and farmer organizations.

6. Mid-Term Review. The representative of the Borrower, the Lead Project Agency, the Ministry in charge of Project monitoring and the Fund shall jointly carry out a Mid-Term Review of Project implementation no later than the end of Project Year 3.

7. Project Implementation Manual. The Lead Project Agency shall prepare a draft Programme Implementation Manual (PIM) acceptable to the Fund. The PIM shall include, inter alia:

- (i) Qualifications, terms of reference and detailed implementation responsibilities of Project parties;
- (ii) Recruitment and appointment procedures for key Project personnel;
- (iii) Criteria for the performance appraisal of the Project personnel and adequate internal control system;
- (v) Targeting and selection criteria for participating beneficiaries;
- (vi) Operational procedures for project implementation, monitoring and evaluation; and
- (vii) Financial management and procurement procedures, including accounting procedures for bookkeeping and reporting, expenditure approval procedures, flow of funds and bank account operation and reconciliation processes.

The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund.

Schedule 2

Allocation Table

1. Allocation of Loan Proceeds. (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the Loan and the allocation of the amounts of the Loan to each Category and the percentages of expenditures for items to be financed in each Category:

Category	Loan Amount Allocated (expressed in SDR)	Percentage net of tax, Government and beneficiary contribution
1. Civil works	2 900 000	100%
2. Equipment and materials	3 010 000	100%
3. Goods and services	2 520 000	100%
4. Grants	6 200 000	100%
5. Salaries, allowances and operating costs	1 980 000	100%
Unallocated	1 840 000	
TOTAL	18 450 000	

(b) The terms used in the Table above are defined as follows:

- "Grants" refers to capital grants for tea replanting & rubber planting.
- "Goods and services" includes training and consultancies.

2. Start-up Costs. Withdrawals in respect of expenditures for start-up costs incurred before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of one hundred and fifty thousand United States Dollars (USD 150 000) for expenditure relating to categories 2, 3 and 5 above.

3. Retroactive Financing. Retroactive financing not exceeding an aggregate of five hundred thousand United States Dollars (USD 500 000), for expenditure to facilitate implementation readiness relating to categories 2, 3 and 5 above, shall be deemed Eligible Expenditure for the purposes of this Agreement. Such expenditure may be made before Effective Date, but after approval of the Financing by IFAD's Executive Board.