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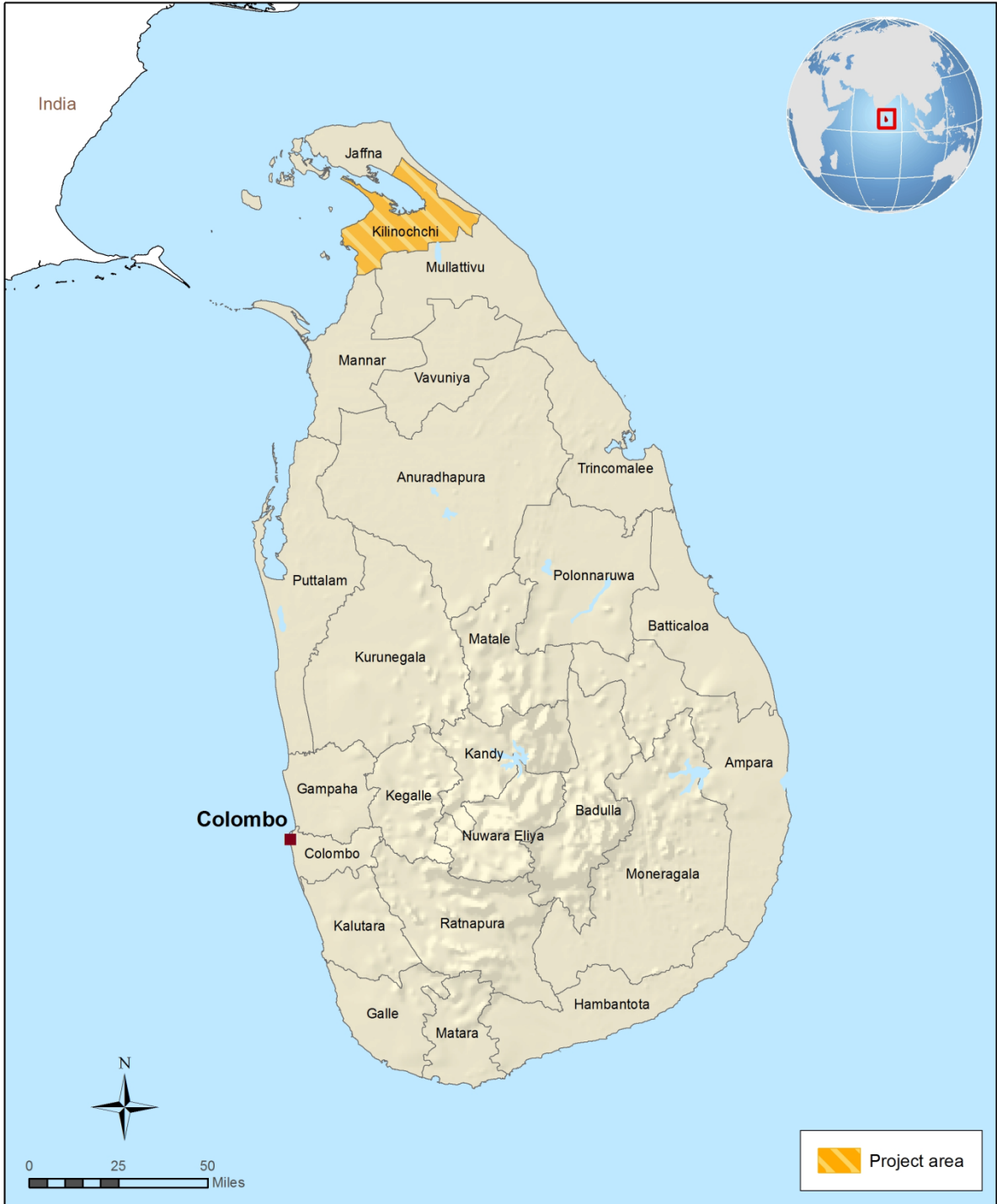
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(14 350 000)

Negotiated financing agreement:

“Iranamadu Irrigation Development Project (IIDP) ”

(Negotiations concluded on 2 December 2011)

Loan Number: _____

Project Title: Iranamadu Irrigation Development Project (IIDP) (the “Project”)

The International Fund for Agricultural Development (the “Fund” or “IFAD”)

and

The Democratic Socialist Republic of Sri Lanka (the “Borrower”)

(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, as may be amended 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 14 350 000 SDR.
2. The Loan is granted on highly concessional terms.
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 service charge shall be payable on each 15 May and 15 November.
6. There shall be a Project Account managed by the Project Management Office (“PMO”) in a commercial bank acceptable to the Fund.
7. There shall be an account designated to receive funds in advance (“Designated Account”) in USD for the exclusive use of the Project in the Central Bank of Sri Lanka.

8. The Borrower shall provide counterpart financing for the Project in the amount of USD 3 158 000 to finance part of the civil works, salaries and operating costs and all taxes and duties.

Section C

1. The Lead Project Agency shall be the Ministry of Local Government and Provincial Councils ("MLGPC").

2. The following are designated as additional Project Parties: Department of Irrigation, Northern Province; Department of Agriculture, Northern Province; other related government agencies including Divineguma Integrated Rural Development Department; service providers; and Farmers Organizations of Iranamadu scheme.

3. The Project Completion Date shall be the fifth 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) The Project Coordinator and Project Manager have been appointed in accordance with Schedule 1 paragraph 8 of this Agreement; and

(b) A Project Implementation Manual ("PIM"), acceptable to the Fund and Borrower, has been finalized.

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

For the Fund:

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

For the Borrower:

Secretary
Ministry of Finance and Planning
Attention: Director General
Department of External Resources
The Secreteriat
Colombo 01
Sri Lanka

This Agreement, dated _____, has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

For the Fund

For the Borrower

Schedule 1

Project Description and Implementation Arrangements

I. Project Description

1. *Target Area.* The Project is located in Kilinochchi District of the Northern Province of Sri Lanka, involving 22 Grama Niladhari Divisions. It covers about 8 455 ha of the area under the Iranamadu tank ("Command Area"). The Project shall benefit the total population of farmers in the Command Area as well as those living outside the Command Area within a distance of approximately 500 metres from the main canal bunds.

2. *Goal.* The goal of the Project is to contribute to poverty reduction and increase in household incomes.

3. *Objectives.* The objectives of the Project are:

- (a) to promote the effective and sustainable management of the irrigation infrastructure; and
- (b) to achieve sustainable improvement of water and land productivity.

4. *Components.* The Project shall consist of the following Components, besides from the Project Management:

4.1 Infrastructure Development. This component consists of two subcomponents:

(a) Irrigation infrastructure rehabilitation. The Project shall contribute to the rehabilitation of the downstream canal system of the Iranamadu Tank which provides irrigation water to 8 455 hectares. Under this subcomponent, the Project shall design, implement and supervise works to render the Iranamadu scheme fully operational. This includes the rehabilitation of the two main canals, the drainage canals, and all the distribution and field canals. Farm roads shall also be improved and repaired. The Project shall also introduce an innovative system of farmer managed Bulk Water Allocation System. This shall be facilitated by strengthening existing Farmer Organizations ("FOs") and establishing new FOs and Women and Youth Groups.

(b) Other infrastructure development. The Project shall support about 2000 families experiencing water shortages with water saving techniques, rain water harvesting tanks for drinking water and other small earth structures to capture rainwater runoff and ground water recharging. A limited allocation of resources shall be included in the Project to support marketing infrastructure at the level of FOs and women and youth groups.

4.2 Production and Marketing. This component consists of three sub-components:

(a) Social mobilisation and training. In addition to the support provided to strengthen the existing FOs for water management activities, women groups including youth for non-paddy crop production shall be formed and strengthened from the second year of the Project and thereafter. The Project shall organise and finance training programmes for the women and youth in social leadership, accounting and financing, non-paddy crop cultivation, off-farm income generation activities, agricultural processing, and organic fertiliser production etc.

(b) Production, extension and marketing. The Project shall finance non-rice crop diversification programmes during yala and intermediate seasons that will be initiated and supported by the Department of Agriculture, Northern Province. In addition, the Project shall discuss and liaise with financial institutions in the Northern Province to

create credit linkages with farmers. The required extension services and farmer training to meet market quality standards shall be provided by the relevant government institutions including Department of Agriculture, Northern Province, Divineguma Integrated Rural development Department and by the partner private sector marketing firms. In addition the Project shall also support farm demonstrations on good agricultural practices, related farmer training and conducting validation workshops of such demonstrations.

To ensure effective market demand for Project farmers for specific crops, the Project shall seek partnership with the private sector marketing firms, to create marketing contracts. The partnerships shall include providing their expertise both in sustainable production and direct marketing through forward contracting with farmer groups. These farmer groups shall be supported by the Project in their negotiations of forward contracts.

(c) Other agricultural development and off-farm activities. The Project shall support upland agriculture in rain fed fields and homesteads, training of voluntary community professionals on processing and value addition of non-paddy crops and provide matching grants to purchase agro-processing equipment once the women and youth groups are matured.

The Project shall also finance a soil suitability study to identify areas that are suitable for non-paddy crops.

The Project shall support the formation of women and youth groups for micro enterprise development. Potential sectors shall include agro-processing, agro-business, local craft industry, livestock based value addition work, production of organic fertiliser.

II. Implementation Arrangements

5. A National Steering Committee ("NSC") shall be established for the Project under the chairmanship of the Secretary of the MLGPC. It shall ensure that the Project is implemented in accordance with this Agreement and the agreements between the Project beneficiaries and the private sector marketing firms. The composition of the NSC shall be acceptable to IFAD and the Borrower.

6. A Provincial Steering Committee ("PSC") shall be established for the Project under the chairmanship of Chief Secretary, Northern Provincial Council and responsible for provincial level coordination and Project implementation oversight over performance of functions. It shall recommend the Annual Work Plan and Budget ("AWPB") and procurement plan and closely monitor the Project performance and outputs. The composition of PSC shall be approved by the NSC.

7. A District Coordinating Committee ("DCC") and District Agriculture Committee ("DAC") shall facilitate the Project coordination at the district level. These are existing committees that meet regularly to coordinate and report on development projects implemented in the district.

8. A Project Management Office ("PMO") shall be established in the Office of Deputy Director of Irrigation at Kilinochchi. It shall be the executive authority of the Project and shall be headed by the Project Coordinator. The Project Coordinator shall be appointed from among high level qualified permanent government officials, on a secondment basis and on a part-time basis. The appointment shall be acceptable to IFAD. A Project Manager shall be recruited from the open market with qualifications and experience acceptable to the Borrower and to IFAD, and shall be in charge of daily management of the Project. The Project Coordinator shall take the overall responsibility of the Project management and answerable to the NSC and PSC. The Project Manager shall be responsible for Project implementation and answerable to the Project Coordinator.

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	Percentages Net of taxes and co- financiers/beneficiaries contributions.
1. Civil Works	10 110 000	100%
2. Vehicles, Equipment & Materials	310 000	100%
3. Advisory Services & Studies	870 000	100%
4. Training Groups in Operation and Maintenance	660 000	100%
5. Training, inputs and marketing	220 000	100%
6. Salaries & Allowances	415 000	100%
Unallocated	1 765 000	
TOTAL	14 350 000	

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

"Training Groups in Operation and Maintenance" means eligible expenses incurred under Category 4 with respect to training to be provided for farmer groups for the operation and maintenance of the irrigation and other infrastructure constructed or rehabilitated under the two components of the project; and

"Training, inputs and marketing" means eligible expenses incurred under Category 5 with respect to training, incremental inputs and marketing linkage support to be provided under the "Production and Marketing" component of the Project.

Logical framework

Results hierarchy	Indicators	Means of Verification	Assumptions
Goal			
Contribution to overall poverty reduction, increases in household incomes	<ul style="list-style-type: none"> - Increased hhs assets - Increased hhs incomes - Reduced malnutrition of children below 5 years – weight & height 	<ul style="list-style-type: none"> - Provincial statistics - Household surveys 	
Development objective			
The irrigation infrastructure of the Iranamadu scheme has been rehabilitated, farm productivity improved and women's participation in water and land management and marketing enhanced	<ul style="list-style-type: none"> - No. of hhs with secured access to water - Effectiveness of the O&M arrangements - No. of hhs reporting production increase - No. of hhs with forwarding contracts with the private sector - No. of functioning community infrastructure projects <i>(all the 1st 4 indicators are gender disaggregated)</i> 	<ul style="list-style-type: none"> - Household surveys - Poverty analysis - M&E reports 	<ul style="list-style-type: none"> - Individual and group incentives as well as farmer institutional development will sustain infrastructure, cropping, marketing arrangements, and women participation in the medium term
Outcomes			
Irrigation infrastructure is rehabilitated, water in distribution and field canals is farmer managed and on demand, women effectively participate in water and land management	<ul style="list-style-type: none"> - Water productivity in grain equivalent/m³ - % Reduction in average duty - Increase in overall irrigation intensity - No. of farmers using irrigation, by gender - Average rate of water saving during <i>maha</i> season - Proportion women office bearers in FOs - No. of FOs effectively maintaining D and F canals 	<ul style="list-style-type: none"> - Reports of the Prov. Irrigation Department (PID) - Project Progress Reports - Project Review Mission including annual outcome study reports - M&E & Mid Term Review 	<ul style="list-style-type: none"> - Severe weather events do not substantially damage rehabilitated infrastructure - Continued policy support for irrigation development
Sustainable agricultural productivity of diversified crops is increased and forward contracting with private corporate buyers ensures remunerative markets.	<ul style="list-style-type: none"> - Crop diversification by area grown by season - Productivity by crop, decrease in use of chemicals - Seasonal turn-over under forward contracts - Average contract farm gate price compared to market price - % increase in return to labour (female and male) 	<ul style="list-style-type: none"> - Reports of the Prov. Agriculture Department - Project Progress Reports - Project Review Mission reports - M&E & Mid Term Review 	<ul style="list-style-type: none"> - Severe weather events do not substantially damage crops - Climate change effects are mitigated - Continued policy support for diversification
Sustainable FOs delivering irrigation services to farmers	<ul style="list-style-type: none"> - No. FOs managing bulk water allocations - Irrigation – organization performance measured by financial & management audit (>50% pass after 2 yrs & >75% after 4 yrs) 	<ul style="list-style-type: none"> -Management and financial audit -Annual outcome studies -Project review report 	<ul style="list-style-type: none"> -heterogeneity of land sizes and different water volume requirement could be a limitation for smooth operations.

Outputs			
Irrigation development	<ul style="list-style-type: none"> - Length of canals rehabilitated (km, by type) - No. of structures repaired or rebuilt (by type) -No. of bulk water supply contract that has been arranged which include water distribution arrangements, maintenance arrangements and financing procedures - No. of water meters installed by type of canal - No. of farmers trained in meter reading - No. of volunteer <i>jalapalaka</i> (Water Duty Controllers) appointed by FOs/Project IE per Branch canal system by cultivation year - Volumes of water allocated by season - Area of the command area effectively irrigated (ha, by type) - No. of women members of FOs who are managing irrigation 	<ul style="list-style-type: none"> - Reports of the PID - Project Progress Reports - Project Review Mission reports - M&E reports - Mid-Term Review Report 	<ul style="list-style-type: none"> - System H experience in demand led water management successfully transferred to project farmers
Production and marketing	<ul style="list-style-type: none"> - Areas irrigated by crop per season (ha, by type) - Diversification of cropping patterns - Volumes and proportion of crops sold under forward contracting - No. of women groups for fruits, vegetables and other crops - No. of hhs covered by extension and marketing services provided by the private sector (by gender) 	<ul style="list-style-type: none"> - Reports of the Prov. Agriculture Department - Project Progress Reports - Project Review Mission reports - M&E reports - Annual Report Corporate Buyer - Mid-Term Review Report 	<ul style="list-style-type: none"> - Agricultural and other staff supporting adoption of sustainable cropping techniques
Project management	<ul style="list-style-type: none"> - PMO staff appointments - AWPB approvals - Tender procedures and procurement - Flow of funds - M&E reporting - KM activities - Implementation Gender Action Plan 	<ul style="list-style-type: none"> - Project Progress Reports - Project Review Mission reports - Mid-Term Review Report 	<ul style="list-style-type: none"> - Timely appointment of key project staff - Government and project incentives sufficient to keep qualified staff in place - Fiduciary procedures well understood by all involved, no major delays in fund flows - Transparent procurement