
CONFORMED COPY

**CREDIT NUMBERS 2880-CE, 3058-CE,
AND 3525-CE**

Agreement Amending Selected Development Credit Agreements

(North East Emergency Reconstruction Program)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

Dated December 4, 2002

**CREDIT NUMBERS 2880-CE, 3058-CE,
AND 3525-CE**

AGREEMENT AMENDING SELECTED DEVELOPMENT CREDIT AGREEMENTS

AGREEMENT AMENDING SELECTED DEVELOPMENT CREDIT AGREEMENTS, dated 4, 2002, between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the “Borrower”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the “Association”).

WHEREAS (A) the Borrower and the Association have entered into a Development Credit Agreement dated July 25, 1996, as amended from time to time (the “PSIDC Development Credit Agreement”), for the financing of the Private Sector Infrastructure Development Project (Credit Number 2880-CE), described in Schedule 2 to the PSIDC Development Credit Agreement;

(B) the Borrower and the Association have entered into a Development Credit Agreement dated April 30, 1998, as amended from time to time (the “Mahaweli Development Credit Agreement”), for the financing of the Mahaweli Restructuring and Rehabilitation Project (Credit Number 3058-CE), described in Schedule 2 to the Mahaweli Development Credit Agreement;

(C) the Borrower and the Association have entered into a Development Credit Agreement dated July 11, 2001, as amended from time to time (the “Central Bank Development Credit Agreement” and together with the PSIDC Development Credit Agreement and the Mahaweli Development Credit Agreement, the “Selected Development Credit Agreements”), for the financing of the Sri Lanka Central Bank Strengthening Project (Credit Number 3525-CE), described in Schedule 2 to the Central Bank Development Credit Agreement; and

(D) by a letter dated October 14, 2002, the Borrower has requested the Association to assist in financing emergency reconstruction activities in the Affected Areas of its Northern and Eastern provinces by suitably amending the Selected Development Credit Agreements and reallocating undisbursed funds to support such activities; and

WHEREAS, the Association has agreed on the basis, among other things, of the foregoing, to make such additional assistance to the Borrower upon the terms and conditions set forth in this Agreement Amending the Selected Development Credit Agreement (or the “Part Z Amendment”);

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

ARTICLE I

Preamble

Section 1.01. In the Preamble to each Selected Development Credit Agreement, two new clauses (y) and (z) are added as the final enumerated recitals to read as follows:

“(y) The Borrower has requested the Association to reallocate funds from the Selected Development Credit Agreements (as hereinafter defined) in order to assist in financing Part Z of the Project;

“(z) Notwithstanding any other provisions herein, Part Z of the Project will be carried out by the North East Provincial Council (or any successor entity thereto acceptable to the Association) with the Borrower’s assistance, and as part of such assistance, the Borrower will make available to the North East Provincial Council (or any successor entity thereto acceptable to the Association) the proceeds of the Credit as provided in this Agreement and in other Selected Development Credit Agreements.”

Section 1.02. The reference to “terms and conditions” in the final “WHEREAS” paragraph of the Preamble to each Selected Development Credit Agreement shall be deemed to include a reference to the terms and conditions set forth in the North East Reconstruction Agreement (as hereinafter defined) in addition to the Agreements referred to in each such Selected Development Credit Agreement.

ARTICLE II

Definitions and Part Z Special Account

Section 2.01. The following new definitions are added to Section 1.01 of each Selected Development Credit Agreement unless any such definition is already included in such section:

(uu) “Affected Area” means the areas in the Northern and Eastern provinces that were severely affected by the ethnic conflict in Sri Lanka;

(vv) “Acceptable Rehabilitation Criteria” means the Borrower’s criteria and guidelines, in form and substance satisfactory and acceptable to the Association, for supporting activities under Part Z.3 of this Project (rehabilitation of internally displaced persons);

(ww) “Environment Assessment and Management Framework” means the Borrower’s environment assessment and management framework, satisfactory to the Association, including any amendments made to such documents from time to time with the Association’s approval, that contain measures to address any environmental impact arising from carrying out Part Z of the Project;

(xx) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 (b) of the North East Reconstruction Agreement;

(yy) “North East Provincial Council” means the North East Provincial Council of the Democratic Socialist Republic of Sri Lanka and includes any successor entity thereto acceptable to the Association, which undertakes the obligations under Part Z of this Project by executing appropriate legal and financial documentation with the Association;

(zz) “North East Reconstruction Agreement” means the agreement among the Association and the North East Provincial Council for implementing Part Z of the Project as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the North East Reconstruction Agreement;

(aa) “Part Z Implementation Plan” means the plan to be prepared by the North East Provincial Council to the Association’s satisfaction, for implementing Part Z of the Project, including any updates made from time to time with the Association’s approval;

(bb) “Part Z Special Account” means the account referred to in Section 2.02 of this Agreement Amending the Selected Development Credit Agreements;

(cc) “Provincial Committee” means the Provincial Coordinating Committee for Relief, Rehabilitation and Reconciliation or any successor entity thereto acceptable to the Association, which shall be responsible for supervising and coordinating implementation of Part Z of the Project;

(dd) “Selected Development Credit Agreements” means, collectively, the PSIDC Development Credit Agreement, the Mahaweli Development Credit Agreement and the Central Bank Development Credit Agreement and any other agreement that shall be included within the meaning of this definition by the Borrower and the Association from time to time, and “Selected Development Credit Agreement” means any such agreement individually; and

(ee) “Social Safeguards Framework” means the Borrower’s social safeguards framework, satisfactory to the Association, including any amendments made to such documents from time to time with the Association’s approval, that contain measures to address any social impact arising from carrying out Part Z of the Project;

Section 2.02. The following new section is added at the end of Article II (The Credit) of each Selected Development Credit Agreement:

“Section 20.01 (a) In accordance with any special instructions or arrangements made by the Association, the Borrower may, for the purposes of Part Z of the Project (excluding any activities under any other parts or components of the Project), open and maintain a special deposit account (the “Part Z Special Account”) in the Central Bank of Sri Lanka on terms and conditions satisfactory to the Association.

(b) Subject to the provisions of Section 20.01 (a), above, deposits into, and payments out of, Part Z Special Account shall be made in accordance with the relevant provisions of this Agreement governing the Special Account used for activities other than Part Z of the Project in amounts to be determined by the Association in consultation with the Borrower.”

ARTICLE III

Execution of the Project

Section 3.01. The following new section is added at the end of Article III (Execution of the Project) of each Selected Development Credit Agreement:

“Section 30.01 (a) The Borrower declares its commitment to the objectives of the Project, and to this end, without any limitation or restriction upon any of its other obligations under this agreement, shall cause the North East Provincial Council (or any successor entity thereto acceptable to the Association) to carry out Part Z of the Project with due diligence and efficiency and in conformity with appropriate administrative, technical and financial practices, and shall provide promptly as needed the funds, facilities, services and resources for Part Z of the Project.

(b) Notwithstanding any other provisions of this Agreement, the Borrower shall make the proceeds of the Credit allocated for Part Z of the Project available to North East Provincial Council (or any successor entity thereto acceptable to the Association) in accordance with arrangements that are satisfactory and acceptable to the Association.”

(c) The provisions of this Agreement relating to procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall apply to all Parts of the Project except for Part Z. Except as the Association shall otherwise agree, procurement of the goods, works and services required for Part Z of the Project and to be financed out of the proceeds

of the Credit shall be governed by the provisions of Schedule 1 to the North East Reconstruction Agreement.

(d) Notwithstanding any other provisions of this Agreement and without any limitation or restriction thereto, the Borrower and the Association hereby agree that the obligations set forth in sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by the North East Provincial Council (or any successor entity thereto acceptable to the Association) pursuant to Section 2.03 of the North East Reconstruction Agreement in respect of Part Z of the Project”.

ARTICLE IV

Financial Covenants

Section 4.01. The following new section is added at the end of Article IV (Financial Covenants) of each Selected Development Credit Agreement:

“Section 40.01: (a) The Borrower shall cause the North East Provincial Council (or any successor entity thereto acceptable to the Association) to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures, in respect of Part Z of the Project, of the ministries and departments of the North East Provincial Council and other implementation agencies responsible for carrying out Part Z of the Project.

(b) The Borrower shall ensure that the annual audit wherever referred to in this Article IV include: (i) audit of the records and accounts for the Part Z Special Account; and (ii) audit of the records and accounts reflecting expenditures for Part Z of the Project in respect of which withdrawals were made on the basis of statements of expenditures.”

ARTICLE V

Remedies

Section 5.01. The following new section is added at the end of Article V (Remedies) of each Selected Development Credit Agreement:

“Section 50.01 (a) Pursuant to the relevant provisions of the General Conditions relating to other events of suspension, the following additional events are provided:

- (i) The North East Provincial Council (or any successor entity thereto acceptable to the Association) shall have failed to perform any of its obligations under the North East Reconstruction Agreement.
- (ii) As a result of events which have occurred after the date of the North East Reconstruction Agreement, an extraordinary situation shall have arisen which shall make it improbable that the North East Provincial Council (or any successor thereto acceptable to the Association) will be able to perform its obligations under the North East Reconstruction Agreement.
- (iii) The Borrower shall have taken any action for the dissolution, disestablishment or suspension of operation of the North East Provincial Council (or any successor entity thereto acceptable to the Association) or shall have amended or repealed the governing statute, rules and regulations of any of these entities so as to materially and adversely affect the ability of the North East Provincial Council (or any successor entity thereto acceptable to the Association) to carry out its functions under this Agreement.

(b) Pursuant to the relevant provision of the General Conditions relating to other events of acceleration, the following additional event is specified, namely, that the event specified in Section 50.01 (a)(i) 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 Borrower”.

ARTICLE VI

Withdrawal of Proceeds of the Credits

Section 6.01. The table relating to withdrawal of the Proceeds of the Credits set out in Schedule 1 to each Selected Development Credit Agreement is replaced with the table set out in Attachment 1 hereto.

Section 6.02. The provision set out in Schedule 1 to each Selected Development Credit Agreement relating to the upper limits for withdrawals on the basis of statements of expenditures shall apply to all Parts of the Project except for Part Z. With respect to Part Z of the Project, the following new paragraph is added at the end of Schedule 1 to each Selected Development Credit Agreement:

“10. For Part Z of the Project, the Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditures for:
(a) goods and works under contracts not exceeding \$200,000 equivalent;

(b) services under contracts not exceeding \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants; (c) training; (d) works procured under force account, and (e) payments made for expenditures incurred under categories (98) and (99) of paragraph 1, above, all under such terms and conditions as the Association shall specify by notice to the Borrower.”

Section 6.03. The following paragraphs are added after the last paragraph following the table set out in Schedule 1 to each Selected Development Credit Agreement:

“11. Except as the Association may otherwise agree, no withdrawals shall be made under the categories for Part Z of the Project set out in the table above after June 30, 2005.

12. The term “Incremental operating costs” means the costs of operation and maintenance of office space, equipment, salaries and allowances of additional staff and travel costs incurred for the purpose of carrying out Part Z of the Project.

13. The term “tax exempt consultancy services” means consultancy services provided by entities or persons who are exempt from taxation under the laws of the Borrower.

14. Notwithstanding the provisions of paragraph 1, above, no withdrawals shall be made in respect of payments made for expenditures under category (98) unless the Borrower has furnished to the Association evidence satisfactory to the Association that the North East Provincial Council has prepared Acceptable Rehabilitation Criteria necessary to carry out Part Z.3 of the Project (rehabilitation of internally displaced persons).”

15. 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 1,600,000, in respect of Categories (94), (95), (96), (97) and (99) on account of payments for expenditures before that date but after November 1, 2002.”

ARTICLE VII

Project Description

Section 7.01. Schedule 2 to each Selected Development Credit Agreement setting out the description of the Project is amended as set out in Attachment 2 hereto.

Section 7.02. In respect of each Selected Development Credit Agreement, the term “Project” shall include, unless the context otherwise requires, all parts of the Project, including Part Z thereof, as described in Schedule 2 to each Selected Development Credit Agreement; provided however, that in respect of any Project Agreement, Participation Agreement, Letter Agreement, Memorandum of Understanding or any other such agreement or understanding referred to or incorporated in each of the Selected Development Credit Agreement, other than for the North East Reconstruction Agreement, the term “Project” shall not include Part Z thereof.

Section 7.03. The term “Eligible Categories” wherever it appears in any Selected Development Credit Agreement shall, for the purposes of the Part Z Special Account for each agreement, include categories (94), (95), (96), (97), (98), (99) and (100) set out in the table in Schedule 1 to each Selected Development Credit Agreement.

ARTICLE VIII

Effectiveness

Section 8.01. This Agreement Amending Selected Development Credit Agreements will be effective only after the Association dispatches a notice to this effect, upon its receiving the following:

(a) the signed copy of this Agreement Amending Selected Development Credit Agreements and the North East Reconstruction Agreement;

(b) a legal opinion from the Borrower satisfactory to the Association, provided by counsel acceptable to the Association, showing that this Agreement Amending Selected Development Credit Agreements has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms; and

(c) a legal opinion from the North East Provincial Council satisfactory to the Association, provided by counsel acceptable to the Association, showing that the North East Reconstruction Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the North East Provincial Council and is legally binding upon the North East Provincial Council in accordance with its terms.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold

Country Director, Sri Lanka

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Charitha Ratwatte

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>% of Expenditures to be Financed</u>
(1) Part A of the Project:	17,750,000	
(a) Works		100% of foreign expenditure and 85% of local expenditures
(b) Equipment		100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 70% of other items procured locally
(c) Interest and other charges on Subloans accrued during the construction of Investment Project		100% of amounts capitalized pursuant to Schedule 4, Part B 1(f) of this Agreement
(d) All risks and marine insurance		100% of foreign expenditures
(2) Part B of the Project:		
(a) Consultants' services and training	5,279,460.05	100%

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>% of Expenditures to be Financed</u>
(b) Equipment and materials	220,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 70% of other items procured locally
(c) Staff and administrative costs	1,870,000	100% through June 30, 1999; thereafter 70% through June 30, 2001
(3) Refunding of Project Preparation Advance	539.95	Amount due pursuant to Section 2.02(c) of this Agreement
(4) Unallocated For Part Z of the Project	Nil	
(94) Civil Works	5,300,000	90%
(95) Goods, equipment, vehicles, supplies, furniture	4,200,000	100% of foreign expenditures; 100% of local expenditures (ex-factory cost); and 85% of other items procured locally
(96) Consultants' services,	3,000,000	75% of expenditure for consultancy services with individuals; 80% of expenditure for consultancy services with firms; and 100% of expenditure for tax-exempt consultancy services
(97) Workshop and training	1,120,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>% of Expenditures to be Financed</u>
(98) Payments to Internally Displaced Persons	2,300,000	100%
(99) Incremental Operating Costs	80,000	50%
(100) Unallocated	Nil	
Total	<u>41,120,000</u>	

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>% of Expenditures to be Financed</u>
(1) Civil Works	20,500,000	80%
(2) Equipment and vehicles	1,830,000	100% of foreign expenditure, 100% of local expenditures (ex- factory cost) and 70% of local expenditures for other items procured locally
(3) Consultants' services and training	1,900,000	100%
(4) Severance payments	12,780,000	80%
(5) Incremental O&M costs	370,000	80%
(6) Refunding of Project Preparation Advance	400,000	Amount due pursuant to Section 2.02(c) of this Agreement
(7) Unallocated	120,000	
For Part Z of the Project		
(94) Civil Works	Nil	90%

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>100% of foreign expenditures; 100% of local expenditures (ex- % of Expenditures to be Financed</u>
(95) Goods, equipment, vehicles, supplies furniture	Nil	factory cost); and 85% of other items procured locally
(96) Consultants' services	Nil	75% of expenditures for consultancy services with individuals; and 80% of expenditures for consultancy services with firms and 100% of expenditures for tax- exempt consultancy services
(97) Workshops and training	Nil	100%
(98) Payments to Internally Displaced Persons	3,800,000	100%
(99) Incremental Operating Costs	Nil	50%
(100) Unallocated	Nil	
Total	<u>41,700,000</u>	

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	6,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Consultants' services	2,679,241	100%
(3) Training	1,180,000	100%
(4) Severance payments	8,440,759	70% of payments made
(5) Operation and maintenance of equipment	200,000	50%
(6) Refunding of Project Preparation Advance	470,000	Amount due pursuant to Section 2.02(c) of this Agreement
(7) Unallocated	430,000	
For Part Z of the Project		
(94) Civil Works	Nil	90%

<u>Category</u>	<u>Amount of the Credit Allocated Expressed in SDR Equivalent</u>	<u>100% of foreign expenditures; 100% of local expenditures (ex- % of Expenditures to be Financed</u>
(95) Goods, equipment, vehicles, supplies, furniture	Nil	factory cost); and 85% of other items procured locally
(96) Consultants' services	Nil	75% of expenditure for consultancy services with individuals; 80% of expenditure for consultancy services with firms; and 100% of expenditure on tax- exempt consultancy services
(97) Workshops and training	Nil	100%
(98) Payments to Internally Displaced Persons	1,500,000	100%
(99) Incremental Operating Costs	Nil	50%
(100) Unallocated	2,300,000	
Total	<u>23,900,000</u>	

ATTACHMENT 2

1. In each Selected Development Credit Agreement, the following new paragraph is added after the first paragraph of Schedule 2 (Description of the Project) setting out an additional objective of the Project:

“A further objective of the Project is to assist the North East Provincial Council (or any successor entity thereto acceptable to the Association) in carrying out a program of rehabilitation and reconstruction in Affected Areas, including (i) assisting in the rehabilitation of Internally Displaced Persons; (ii) restoring primary health care and water supply; and (iii) building institutional capacity of the North East Provincial Council to implement long term reconstruction activities.”

2. In each Selected Development Credit Agreement, the following new Part is added at the end of Schedule 2 (Description of the Project):

“Part Z: North East Emergency Reconstruction Program

1. Health Component

- (a) Restoring the primary health care system at the district level.
- (b) Restoring and strengthening the multi-disease surveillance system.
- (c) Supporting efforts to recruit and train qualified health care providers.

2. Water Component

(a) Reconstructing and repairing the Kilinochchi, Thurainilavalai and Valathapiddy urban water supply schemes in Kilinochchi, Batticaloa and Amparai districts respectively.

- (b) Supporting repair work to existing water schemes in Jaffna district.

3. Rehabilitation of Internally Displaced Persons Component

Supporting the rehabilitation of internally displaced persons in accordance with Acceptable Rehabilitation Criteria.

4. Capacity Building Component

Strengthening the administrative and supervisory capacity of the North East Provincial Council (or any successor entity thereto acceptable to the Association) to implement reconstruction and rehabilitation activities in the Affected Areas.

