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CREDIT NUMBER 4014-

Project Agreement

(North-East Housing Reconstruction Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

**THE NORTH-EAST PROVINCIAL COUNCIL OF THE
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

Dated February 15, 2005



CREDIT NUMBER 4014-CE

PROJECT AGREEMENT

AGREEMENT dated February 15, 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and THE NORTH-EAST PROVINCIAL COUNCIL OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the North-East Provincial Council), acting through its Governor.

WHEREAS by the Development Credit Agreement between the Democratic Socialist Republic of Sri Lanka (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifty-one million, one hundred thousand Special Drawing Rights (SDR 51,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the North-East Provincial Council agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

WHEREAS the North-East Provincial Council, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement, and the General Conditions (as so defined in the Development Credit Agreement) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The North-East Provincial Council declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, housing, reconstruction, rehabilitation, architectural, environmental, technical practices, local-government regulations, norms, and standards, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services, and other resources required for Project implementation at the district and community levels.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the North-East Provincial Council shall otherwise agree, the North-East Provincial Council shall implement the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works, consultants' services, training, and Sub-grants required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement, as these provisions may be further elaborated in the Procurement Plan.

(b) The North-East Provincial Council shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 2.03. (a) The North-East Provincial Council shall carry out 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) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the North-East Provincial Council shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the North-East Provincial Council, a plan designed to ensure the continued achievement of the Project's objectives; and
- (ii) afford the Association a reasonable opportunity to exchange views with the North-East Provincial Council on said plan.

Section 2.04. (a) The North-East Provincial Council shall, at the request of the Association, exchange views with the Association with regard to progress of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit.

(b) The North-East Provincial Council shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the North-East Provincial Council of its obligations under this Agreement.

ARTICLE III

Financial Covenants

Section 3.01. (a) The North-East Provincial Council shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The North-East Provincial Council shall:

- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each Fiscal Year (or other period agreed to by the Association) commencing with the Fiscal Year in which the first withdrawal under the Project Preparation Advance was made, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 3.02. (a) Without limitation upon the North-East Provincial Council's reporting obligations set out in Schedule 2 to this Agreement, the North-East Provincial Council shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover the period not covered by the previous Financial Monitoring Report until the end of such calendar quarter.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. (a) This Agreement and all obligations of the Association and of the North-East Provincial Council thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify the North-East Provincial Council of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly

given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

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

For the North-East Provincial Council:

Chief Secretary's Office
Inner Harbour Road
Trincomalee
Sri Lanka

Facsimile:

94-26-222-0000

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the North-East Provincial Council may be taken or executed by the Chief Secretary of the North-East Provincial Council, or such other person or persons as the Chief Secretary shall designate in writing, and the North-East Provincial Council shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold

Country Director
Sri Lanka

NORTH-EAST PROVINCIAL COUNCIL

By /s/Sivagurunathan Rangarajah

Authorized Representative

SCHEDULE 1

Procurement

Section I. General

A. All goods, works, and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule. If the Borrower employs any procurement or inspection agents, it shall ensure that the requirements of Section 3.10 and 3.11 of the Procurement Guidelines are met.

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works, and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II of the Procurement Guidelines, and the following additional procedures:

1. Domestic Preference. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower/Guarantor.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost \$50,000 equivalent per contract or more but less than \$250,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.3 and 3.4 of the Procurement Guidelines and the following additional provisions:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least thirty (30) days prior to the deadline for the submission of bids;
- (ii) bid documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders, state-owned enterprises, or small-scale enterprises in the bidding process;
- (iv) qualification criteria (in case prequalification was not carried out) shall be stated in the bidding documents, and, if a registration process is required, a foreign bidder declared as the lowest evaluated bidder shall be given a reasonable time to register, without let or hindrance;
- (v) bids shall be opened in public in one location, immediately after the deadline for submission of bids;
- (vi) bids shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (vii) contracts shall be awarded to the lowest evaluated responsive bidders;
- (viii) post-bidding negotiations shall not take place with the lowest evaluated or any other bidders without the Association's prior concurrence;
- (ix) re-bidding shall not be carried out except with the Association's prior concurrence;
- (x) all bidders/contractors shall provide bid/performance security as indicated in the bidding/contract documents;
- (xi) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed by the Association;
- (xii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xiii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (xiv) extension of bid validity shall not be allowed unless justified by exceptional circumstances; and

(xv) there shall not be any restrictions on the means of delivery of the bids.

2. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract, services (other than consultants' services) estimated to cost less than \$1,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting. Goods, such as proprietary items, software, books, periodicals, etc., which the Association agrees, meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines and which are estimated to cost \$1,000 equivalent per contract, may be procured in accordance with the provisions of paragraphs 3.1, 3.6 and 3.7 of the Guidelines.

4. Community Participation. Goods, works, and services required for housing reconstruction activities under Part A of the Project may be procured on the basis of community participation in accordance with paragraph 3.17 of the Procurement Guidelines and the Operational Manual.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$500,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of quality in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments, which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a fixed budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments, which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7, and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances, which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association.

Section IV. 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. If the Procurement Plan provides for prior review of contracts for the employment of individual consultants, the record of justification for such contracts, referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines, shall be subject to Prior Review by the Association. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 2

Implementation Program

General Implementation Obligations

1. The North-East Provincial Council will, at all times, implement the Project in accordance with the Development Credit Agreement, the Operational Manual, the Financial Manual, the Social Safeguards Framework, and the Environmental Management Framework; and, except as the Association may otherwise agree, the North-East Provincial Council will not amend or waive any provision of these manuals or the frameworks, if the Association believes that such amendment or waiver may adversely affect implementation of the Project or the achievement of its objectives.

2. The North-East Provincial Council will:

(a) throughout the period of Project implementation, maintain the North-East Housing Reconstruction Unit with adequate staff, power, functions, and resources to implement this Project in a satisfactory manner;

(b) appoint and retain throughout the period of Project implementation, in accordance with terms of reference, qualifications, and experience satisfactory to the Association a full-time Project director and regular staff (including technical and financial management specialists) for the North-East Housing Reconstruction Unit; and

(c) cause its internal audit unit to assist the Chief Secretary of the North-East Provincial Council, the North-East Housing Reconstruction Unit, district project offices, and Community-Based Organizations to ensure compliance with financial procedures, technical norms, and standards agreed with the Association regarding financial management and technical audits of the Project.

Use of Credit Proceeds

3. Without prejudice to the Borrower's obligations under Section 9.04 of the General Conditions to ensure that all goods, works, services, training, and Sub-grants financed out of the Credit proceeds are used exclusively for the Project, the North-East Provincial Council shall ensure that, under no circumstances, any proceeds of the Credit shall be withdrawn, utilized, or made available for the payment of any taxes, levies, fees, or any other surcharges collected or levied by any group, cadre, entity or other non-governmental organization on goods, works, services, training, or Sub-grants or on the importation, manufacture, procurement or supply thereof.

4. If any Credit proceeds are used in a manner inconsistent with the provisions of the Development Credit Agreement or for the payment of any taxes, levies, fees, or any other surcharges described above, at the Association's request and without prejudice to

any of the Association's other remedies under the Development Credit Agreement, the North-East Provincial Council shall promptly, upon notice from the Association, take all necessary and appropriate action to recover and refund to the Association (in a manner indicated by the Association) an amount equivalent to the Credit proceeds so used, withdrawn, or utilized.

Appraisal, Evaluation, and Implementation of Reconstruction and Repair Activities

5. The North-East Provincial Council shall ensure that:

(a) all housing reconstruction and repair activities to be undertaken under Part A of the Project are identified, selected, and appraised in accordance with the criteria and procedure specified in the Operational Manual, the Environmental Management Framework, and the Social Safeguards Framework; and

(b) ensure that all housing reconstruction and repair activities to be financed under the Project are fully consistent with environmental and social criteria set out in the Operational Manual, the Environment Management Framework, and the Social Safeguards Framework.

Terms and Conditions of Sub-Grants

6. The North-East Provincial Council shall ensure that payments made for Sub-grants are made in accordance with appropriate legal documents, which are in form and substance acceptable to the Association. The legal documents governing Sub-grants shall contain the following provisions:

(a) payments will be used exclusively to finance housing reconstruction or repair activities in accordance with terms and conditions set forth in the Operational Manual;

(b) goods, works and services to be financed by the payments must be consistent with any procedures specified in the Operational Manual;

(c) goods, works, and services will be used exclusively for carrying out the identified and agreed housing reconstruction and repair activities;

(d) expenditures reimbursed through these payments must be exclusive of taxes, levies, fees, or other surcharges by any government, non-government, local entity, cadre, or other organization;

(e) the right of the Association, or an entity designated by the Association, to inspect, by itself, or jointly with the Borrower, the goods, work sites, and construction activities, any relevant records and documents associated with these activities;

(f) the right of the Association to obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operations, and financial condition of a contractor, Community-Based Organization, or any other entity undertaking housing reconstruction and repair activities; and

(g) the right of the North-East Provincial Council (or an entity or individual designated by it to manage or oversee this Project) to suspend or terminate the right of a beneficiary (including a village community) to use the Sub-grant if the beneficiary fails to perform its obligations under the applicable legal documents.

Land Mines

7. The North-East Provincial Council shall ensure that no project activities are carried out in high security areas or areas containing a significant risk of land mines without receiving appropriate and necessary clearances from designated authorities. In particular, the North-East Provincial Council shall ensure that no activities to be financed under the Project shall commence without appropriate clearances concerning the status of land mines in the areas where these activities are to be undertaken.

8. The North-East Provincial Council shall ensure that the Project shall not involve any involuntary land acquisition. All land requirements for implementing the Project shall be met in accordance with the applicable provisions of the Social Safeguards Framework.

Monitoring and Evaluation; Mid-Term Review

9. The North-East Provincial Council shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with agreed indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2006, or such later date as the Association shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

