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**CREDIT NUMBER 4728-LK**

# **Financing Agreement**

**(North East Local Services Improvement Project)  
(NELSIP)**

**between**

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated November 8, 2010**

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**CREDIT NUMBER 4728-LK**

**FINANCING AGREEMENT**

AGREEMENT dated November 8, 2010, entered into between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“the Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“the Association”). The Recipient and the Association hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to thirty three million Special Drawing Rights (SDR 33,000,000) (variously, “the Credit” and “the Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“the Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the MED in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is its Secretary of the Ministry of Finance and Planning.

- 5.02. The Recipient's Address is:

Ministry of Finance and Planning  
The Secretariat  
Colombo 1, Sri Lanka

Facsimile:

94 11 2449823 or  
94 11 2447633

- 5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI)

1-202-477-6391

AGREED Colombo, Democratic Socialist Republic of Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ P.B. Jayasundera

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Amit Dar

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to support Local Authorities in the Northern Province and the Eastern Province to deliver services and local infrastructure in a responsive and accountable manner.

The Project consists of the following parts:

#### **Part 1: Infrastructure Service Delivery**

Provision of Grants to Participating LAs to carry out Subprojects.

#### **Part 2: Institutionalizing Accountabilities**

- (a) Provision of technical assistance and training to Covered LAs to enable them to carry out transparent and independent annual financial audits in order to ensure their financial accountability.
- (b) Provision of technical assistance and training to Covered LAs to enable them to carry out social and technical audits of their public expenditures in order to ensure effective use of funds in line with stakeholder needs and expectations.
- (c) Development and implementation of systems and processes to enhance transparency in the operations of Covered LAs and to strengthen stakeholder voice in planning, budgeting and monitoring of public expenditures and local service delivery.
- (d) Carrying out an education and communication campaign aimed at disseminating Project related information to stakeholders and strengthening demand-side approaches to local governance.
- (e) Provision of technical assistance to Covered LAs to enable them to deal with outstanding financial statements and audit issues.

#### **Part 3: Capacity Building**

- (a) Enhancing the capacity of Covered LAs in the areas of planning, budgeting, financial management, revenue management, procurement and Project management.

(b) Enhancing the capacity of the PCs to undertake audits of Covered LAs in an efficient and timely manner.

(c) Strengthening the capacities of the Recipient and the PCs to support and oversee the operations of the Covered LAs.

**Part 4: Assessment and Evaluation**

(a) Establishment of a comprehensive system to enable the Recipient and the PCs to monitor the activities of LAs through baseline assessments and repeater surveys.

(b) Carrying out evaluations and analysis of operations of Covered LAs including, but not limited to, financial, technical and social audits, and preparation and completion of stakeholder score cards.

**Part 5: Project Management**

Strengthening the capacity of the Recipient in Project management.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall maintain a Project coordinating unit within MED with staff having skills, qualifications and experience satisfactory to the Association, and in sufficient numbers, as set out in the PIP and agreed with the Association, including internal auditors. The Recipient, through PCU shall:
  - (a) carry out the financial management, auditing, monitoring and reporting, and administration functions under the Project;
  - (b) convene the National Project Steering Committee;
  - (c) ensure coordination among the PCs and the LAs;
  - (d) maintain linkages with other agencies of the Recipient involved in local development, and ensure coordination and synergy with other development programs in the Northern Province and the Eastern Province;
  - (e) raise awareness regarding the Project among key stakeholders, including politicians and senior officials of the Recipient; and
  - (f) ensure that lessons learned during Project implementation are captured and disseminated nationally.
  
2. For the purposes of the Project oversight and inter-ministerial coordination at the national level, the Recipient shall maintain a National Project Steering Committee having composition and terms of reference acceptable to the Association. The Recipient shall cause the NPSC to:
  - (a) provide policy guidance and monitoring support at the national level;
  - (b) ensure overall coordination and linkages with ministries and agencies of the Recipient not directly involved in the Project; and
  - (c) promote an enabling environment for the Project.



**B. Implementation Arrangements**

3. The Recipient shall: (a) prepare and adopt, by August 31, 2010, an information disclosure policy acceptable to the Association; (b) thereafter implement such policy for the duration of the Project; and (c) not amend, abrogate or waive any provision of such policy without the prior written consent of the Association.
4. The Recipient shall: (a) not later than October 31 in each year, commencing in 2010, furnish to the Association an annual budget for implementing the PIP in the following year; (b) not later than November 30 in each year, exchange views with the Association on such budget; and (c) not later than December 31 in each year finalize such budget, taking into account the Association's comments.
5. In carrying out the Project, the Recipient shall ensure that: (a) there shall be no involuntary land acquisition; (b) the Project shall be implemented as far as reasonably practicable on publicly-owned land, using exclusively land free from squatters, encroachments or other encumbrances; and (c) any acquisition of private land, if needed, shall be through outright purchase at market rates or voluntary donation in accordance with the laws of the Recipient and with the guidelines and procedures set forth in the PIP, provided that if there is any discrepancy between any provision in the PIP and the provisions of this Agreement, the provisions of this Agreement shall apply.

**C. Implementation Agreements**

6. For the purposes of oversight, coordination and facilitation of the Project at the provincial and local level, the Recipient shall enter into an agreement with each of the Northern PC and the Eastern PC, acceptable to the Association, such agreement to provide, among other things:
  - (a) That each PC, through the Commissioner of Local Government, shall be responsible for management and coordination of Project activities at the provincial level and shall maintain staff with skills, qualifications and experience, and in sufficient numbers, as set out in the PIP and agreed with the Association;
  - (b) That each PC, through the Provincial Planning Committee, shall review overall progress of the Project activities at the provincial and local level.
  - (c) That each PC, through the Assistant Commissioners of Local Government, shall facilitate the preparation of LA Development Plans and the identification, preparation and execution of Subprojects, and shall provide such other assistance as needed to the LAs.

- (d) That each PC shall: (i) ensure that LA Development Plans and Subprojects are prepared and appraised in accordance with the criteria and procedures specified in the LAPIM; and (ii) facilitate the receipt of the proceeds of the Financing by each of the Participating LAs from the PCU in a timely manner in accordance with the relevant Grant Agreement.
  - (e) That the PCs shall take all necessary measures to ensure that the LAs carry out Subprojects in accordance with the Grant Agreements, the PIP, the LAPIM, the GAAP; and the ESMF, provided that in the event of any discrepancy between the PIP or the LAPIM and this Agreement, the provisions of this Agreement shall apply.
  - (f) That the PCs shall not, and shall ensure that the LAs do not, amend or waive any provision of the PIP, the LAPIM, the GAAP or the ESMF without the prior written consent of the Association.
7. The Recipient shall exercise its rights under each Implementation Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Implementation Agreement or any of its provisions.

**D. Eligibility of Subprojects**

8. The Recipient shall make Grants to Participating LAs to carry out Subprojects under Part 1 of the Project in accordance with the criteria and procedures set out in the LAPIM, which shall include the following:
- (a) To be eligible to receive a Grant, an LA shall:
    - (i) be located in the Northern Province or the Eastern Province;
    - (ii) have completed the preparation of all due annual financial statements in a manner satisfactory to the Recipient;
    - (iii) have received, from the Recipient's Auditor General, audit opinions with respect of its financial statements for the past two (2) fiscal years that are neither adverse nor in the nature of disclaimers of opinion;
    - (iv) have key financial management staff who are adequately trained;
    - (v) have prepared an LA Development Plan and corresponding budget; and

- (vi) have established standing committees or advisory committees for stakeholder participation as set out in the LAPIM.
- (b) To be eligible to receive a Grant an activity or activities shall:
  - (i) be part of the LA Development Plan of the LA making the submission, and be consistent with the priorities set out in such LA Development Plan; and
  - (ii) be technically feasible and socially and economically viable.
- (c) The LA submitting such activity or activities for consideration shall be capable of effectively managing the implementation of the activity or activities; and
- (d) The communities to be impacted by the activity or activities shall have been involved in the decision-making process that shall have led to the inclusion of such activity or activities in the LA Development Plan submitted for consideration; and measures shall have been taken to ensure that such communities shall be involved in the supervision and maintenance of the Subprojects.

**E. Terms and Conditions of Subprojects.**

- 9. The Recipient shall make each Grant under a Grant Agreement with the Participating LA on the terms and conditions specified in the LAPIM which shall include, but not be limited to the following:
  - (a) The amount of each Grant shall be calculated according to the formula specified in the LAPIM;
  - (b) The Grant shall be denominated in Sri Lankan Rupees;
  - (c) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to:
    - (i) suspend or terminate the right of the LA to use the proceeds of the Grant, or to obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the LA's failure to perform any of its obligations under the Grant Agreement; and
    - (ii) require each LA to:
      - (A) carry out its Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and

social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines, the PIP, the LAPIM, the GAAP; and the ESMF, provided that in the event of any discrepancy between the PIP or the LAPIM and this Agreement, the provisions of this Agreement shall apply;

- (B) provide, promptly as needed, the resources required for the purpose;
- (C) procure the goods, works and services to be financed out of the proceeds of the Grant in accordance with the provisions of Section III of this Schedule 2;
- (D) make adequate provision for the insurance of any goods required for the Subprojects, and to be financed out of the proceeds of the Financing, against hazards incident to the acquisition, transportation and delivery of the goods to the place of their use or installation. Any indemnity for such insurance shall be payable in a freely usable Currency to replace or repair such goods;
- (E) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Subproject and the achievement of its objectives;
- (F) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, and in a manner adequate to reflect the operations, resources and expenditures related to the Subproject; and (2) at the Association's, the relevant PC's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient, the relevant PC, and the Association;
- (G) enable the Recipient, the relevant PC and the Association to inspect the Subproject, its operation and any relevant records and documents; and

- (H) prepare and furnish to the Recipient, the relevant PC and the Association all such information as the Recipient, the relevant PC or the Association shall reasonably request relating to the foregoing.

10. The Recipient shall exercise its rights under each Grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any Grant Agreement or any of its provisions.

**F. Anti-Corruption**

11. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in Annex 1 to this Schedule 2. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. Without limitation upon the provisions of the preceding paragraph, the Recipient shall: (a) not later than December 31, 2012, prepare under terms of reference satisfactory to the Association, and furnish to the Association, a mid-term review report summarizing the results of the monitoring and evaluation activities carried out by it pursuant to the preceding paragraph, and setting out the status of the Project and the measures recommended to ensure its efficient completion and to accomplish its objectives; (b) no later than thirty (30) days after receipt by the Association of such report or such other date as the Association shall specify, exchange views with the Association on such report; and (c) promptly thereafter, carry out the recommendations acceptable to the Association of such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation upon the provisions of Part A of this Section, the Recipient shall:
  - (a) carry out the financial management of the Project in accordance with the Financial Management Manual and shall not amend, abrogate or waive such manual without the prior written consent of the Association; and
  - (b) prepare and furnish to the Association as part of the Project Report not later forty five days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association;
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year, commencing with the Fiscal Year in which the first withdrawal was made under the Preparation Advance for the Project. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

### **Section III. Procurement**

#### **A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

#### **B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding, subject to the additional procedures set out in Annex 2 to this Schedule
(b) Shopping
(c) Direct Contracting
(d) Community participation in procurement
(e) Force Account

**C. Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b><u>Procurement Method</u></b>
(a) Quality-Based Selection
(b) Least Cost Selection
(c) Fixed Budget Selection
(d) Selection based on Consultants’ Qualifications
(e) Single-Source Selection
(f) Individual Consultants

**D. Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

(a) each contract for goods procured on the basis of International Competitive Bidding and estimated to cost the equivalent of \$600,000 or more, each contract for works estimated to cost the equivalent of \$4,000,000 or more, the first

contract for works and the first contract for goods procured by the PCU or each Participating LA on the basis of National Competitive Bidding, each contract for goods or works procured on the basis of Direct Contracting and estimated to cost the equivalent of \$1,000 or more, (b) each contract for consultants’ services provided by a firm estimated to cost the equivalent of \$500,000 or more, each contract for consultants’ services provided by an individual consultant estimated to cost the equivalent of \$200,000 or more, each contract for consultants’ services provided by a firm procured on the basis of single source selection and estimated to cost the equivalent of \$10,000 or more; and (c) all contracts for consultant’s services for the PCU. All other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
  
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, consultants’ services, Incremental Operating Costs and training and workshops	5,270,000	100%



(2) Grants under Part 1 of the Project	27,000,000	100% of amounts disbursed from the proceeds of the Financing Agreement.
(3) Refund of Preparation Advance	730,000	Amount payable pursuant to Section 2.07 of the General Conditions
<b>TOTAL AMOUNT</b>	<b>33,000,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$ 10,000,000 equivalent may be made for payments made prior to this date but on or after May 1, 2010 for Eligible Expenditures under Category 1.
  
2. The Closing Date is December 31, 2015.

**Annex 1  
to  
Schedule 2**

**Project Performance indicators**

<b>PDO</b>	<b>Project Outcome Indicators</b>	<b>Use of Project Outcome Information</b>
<p>To support local government authorities in the Northern and Eastern provinces of Sri Lanka to deliver services and local infrastructure in a responsive and accountable manner.</p>	<ul style="list-style-type: none"> <li>• construction/rehabilitation of (i) rural and other village roads (kilometers), (ii) drainage systems (meters), (iii) water points (number), (iv) piped water connections (number of households), (v) playgrounds and nursery facilities (number), (vi) waste collection facilities (number) (vii) others to be tracked as they occur (see eligible list of potential investments)</li> <li>• Percentage of capital grants released against allocation</li> <li>• Rising satisfaction of local people with service delivery by LAs</li> </ul>	<p>Measure improvement of service delivery achieved under the project</p> <p>Measures the success of capital grant allocation</p> <p>Gauge improved access and quality of local service delivery</p>
<b>Intermediate Outcomes</b>	<b>Intermediate Outcome Indicators</b>	<b>Use of Intermediate Outcome Monitoring</b>
<p>Enhanced capacity of LAs to deliver local public goods and services.</p>	<ul style="list-style-type: none"> <li>• Number of LAs preparing annual financial statements within 6 months after close of the financial year</li> <li>• Number of “acceptable” audit opinions of LA accounts</li> </ul>	<p>Measure financial reporting capacity</p> <p>Measure financial management capacity</p>

	<ul style="list-style-type: none"><li>• Number of LAs with budgets prepared in a participatory manner</li><li>• LA revenues, expenditures, and procurement decisions publicly disclosed</li></ul>	Measure responsiveness of LAs to its citizenry  Gauge accountability of LAs
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**Annex 2**  
**to**  
**Schedule 2**

**National Competitive Bidding**

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non consultant services procured under the National Competitive Bidding (NCB) method shall be subject to the following requirements:

- Only Recipient-specific Standard Bidding Documents satisfactory to the Association (and as amended from time to time and agreed with the Association) will be used.
- Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least twenty-one (21) days before, and issued up to, the deadline for submission of bids.
- Bidding documents will be issued by mail or in person to all who are willing to pay the required fee.
- Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders (including state-owned enterprises or small-scale enterprises) in the bidding process. No special preferences will be accorded to any enterprises or bodies.
- Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.
- There will not be any restrictions on the means of delivery of the bids, which shall be either through post or hand-delivered. Electronic submissions will not be permitted.
- Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time and place of bid opening).
- Evaluation of bids will be made in strict adherence to the criteria disclosed in the bidding document, in a format and within the specified period agreed with the Association, and within the bid validity period specified in the bidding document.
- Except in cases of *force majeure* or exceptional situations beyond the control of

the implementing agency, the extension of bid validity will not be allowed without the prior concurrence of the Association: (i) for the first request for extension if it is beyond four weeks; and (ii) for all subsequent requests for extension irrespective of the period.

- Contracts will be awarded to the lowest evaluated responsive bidder.
- Bids will not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association.
- Except with the prior concurrence of the Association, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.
- Re-invitation of bids will not be carried out without the prior concurrence of the Association.
- All bidders and contractors/suppliers shall provide bid and performance securities as required in the bidding and contract documents.
- A bidder's bid security will apply only to the specific bid, and a contractor's performance security will apply only to the specific contract under which they are furnished.
- Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association.

**SCHEDULE 3****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15, commencing September 15, 2020, to and including March 15, 2030	5%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

**APPENDIX****Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Assistant Commissioners of Local Government” means the assistants to the Commissioner of Local Government, or any successor thereto.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Commissioner of Local Government” means the administrative head of the local government department in each of the PCs or any successor thereto.
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “Covered LAs” means LAs in the Northern Province and the Eastern Province, and “Covered LA” means any one of such Covered LAs.
7. “Eastern PC” means the provincial council having jurisdiction over the Eastern Province as provided for in the 13<sup>th</sup> Amendment of the Constitution of the Recipient.
8. “Eastern Province” means the Eastern Province in the territory of the Recipient, as described in the 13<sup>th</sup> Amendment of the Constitution of the Recipient.
9. “Environmental and Social Management Framework” and “ESMF” mean the framework dated January 29, 2010, prepared and publicly disclosed by the Recipient, and approved by the Association, which sets out, among other things: (i) key principles for social and environmental management of Subprojects; (ii) procedures to screen and process Subprojects 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, which have been incorporated into the PIP.
10. “Financial Management Manual” means the manual prepared and adopted by the Recipient and approved by the Association and to be followed by the Recipient pursuant to the provisions of Schedule 2, Section II, paragraph B.2(a) of this Agreement, containing among other things, the disbursement, financial reporting,

internal audit and performance monitoring procedures for the Project, as such manual may be revised with the prior written consent of the Association.

11. “Fiscal Year” means the fiscal year of the Recipient and the LAs which runs concurrently with the calendar year.
12. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
13. “Governance and Accountability Action Plan” and “GAAP” mean the plan adopted by the Recipient, dated April 5, 2010, for improving governance and accountability under the Project.
14. “Grant Agreements” means the agreements to be entered into between the Recipient and the LAs providing for the provision of Grants by the Recipient to the LAs and the latter’s obligations in carrying out Subprojects, and “Grant Agreement” means any one of such Grant Agreements.
15. “Grants” means grants provided or to be provided under Part 1 of the Project to Participating LAs as provided for in Schedule 2, Section I, Parts D and E to this Agreement.
16. “Implementation Agreements” means the agreements to be entered into between the Recipient and each of the PCs, as set out in Schedule 2, Section I, Part C to this Agreement, setting out the respective roles and responsibilities of the Recipient and the PCs with regard to the Project, and “Implementation Agreement” means either one of such Implementation Agreements.
17. “Incremental Operating Costs” means incremental recurrent expenditures incurred by the Recipient on account of the Project for travel and subsistence expenses, office supplies, vehicle rental charges including insurance, vehicle operating charges including fuel and maintenance, maintenance of office equipment, telephone and other communications charges, office rent, bank charges, advertising costs, and salaries and contractual allowances of contracted staff, but excluding salaries of the Recipient’s civil servants.
18. “LA Council” means the ruling body of each LA whose mandate includes the passing of by-laws and the approval of LA Development Plans as provided for pursuant to the Recipient’s Pradeshiya Sabhas Act (No. 15 of 1987), Municipal Council Ordinance and Amendment Act of 1987 and Urban council Ordinance and Amendments Act of 1987 and as the case may be.



19. “LA Advisory Committee” means the committee appointed by the LA Council to ensure stakeholder participation in LA affairs and to approve LA Development Plans in the absence of the LA Council.
20. “LA Development Plans” means the plans developed by each Participating LA and approved by the relevant LA Council or LA Advisory Committee and cleared by the relevant PC, setting out activities proposed to be financed in part by the proceeds of Grants under Part 1 of the Project.
21. “LA Project Implementation Manual” and “LAPIM” mean the manual dated September 30, 2009 adopted by the Recipient approved by the Association; as such manual may be revised from time to time with the prior written consent of the Association.
22. “Local Authorities” and “LAs” mean the following local authorities which make up the third tier in the governance structure of the Recipient and fall under the administrative authority of PCs as set out in the 13<sup>th</sup> Amendment to the Recipient’s Constitution:
  - (a) the Recipient’s Pradeshiya Sabhas, as defined in, and empowered by, the Recipient’s Pradeshiya Sabhas Act (No. 15 of 1987);
  - (b) the Recipient’s Municipal Councils as defined in, and empowered by, the Recipient’s Municipal Council Ordinance and Amendment Act of 1987; and
  - (c) the Recipient’s Urban Councils as defined in, and empowered, by the Recipient’s Urban Councils Ordinance and Amendments Act of 1987.

and “LA” means any one of such LAs”.
23. “MED” means the Recipient’s Ministry of Economic Development, or any successor thereto.
24. “National Project Steering Committee” and “NPSC” mean the committee established by the Recipient and to be maintained in accordance with Schedule 2, Section I, Part A.2 of this Agreement.
25. “Northern PC” means the provincial council having jurisdiction over the Northern Province as provided for in the 13<sup>th</sup> Amendment of the Constitution of the Recipient.
26. “Northern Province” means the Northern Province in the territory of the Recipient, as described in the 13<sup>th</sup> Amendment of the Constitution of the Recipient.

27. “Participating LAs” means LAs that have been selected to receive Grants under Part 1 of the Project, in accordance with the eligibility criteria set out in LAPIM, and “Participating LA” means one of such Participating LAs.
28. “PCs” means collectively, the Northern PC and the Eastern PC, and “PC” means either of them.
29. “Preparation Advance” means the advance referred to in Section 2.07 of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on October 19, 2009 and on behalf of the Recipient on November 7, 2009.
30. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
31. “Procurement Administration Manual” means the manual to be prepared and adopted by the Recipient and approved by the Association pursuant to the provisions of Section 4.01 of this Agreement, such manual to contain, among other things, the procurement procedures for the Project, as such manual may be revised with the prior written consent of the Association
32. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 17, 2010 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
33. “Project Coordination Unit” and “PCU” mean the unit established within MED and to be maintained as provided for in Schedule 2, Section I, Part A.1 of this Agreement.
34. “Project Implementation Plan” and “PIP” mean the plan dated April 2, 2010 adopted by the Recipient and acceptable to the Association, for the implementation of the Project, as such plan may be revised from time to time with the agreement of the Association.
35. “Provincial Planning Committee” means the committee set up by each PC for the purposes of planning activities of the LAs related to the Project or any successor thereto.
36. “Sri Lankan Rupees” means the lawful currency of the Recipient.
37. “Subproject” means a small-scale rural connectivity infrastructure activity financed, or eligible to be financed, out of the proceeds of a Grant under Part 1 of the Project.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Section 2.07 is modified to read as follows:

*“Section 2.07. Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. The following term and definition set forth in the Appendix are modified as follows:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“Preparation Advance” means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”