
CONFORMED COPY

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

North East Reconstruction Agreement

(North East Emergency Reconstruction Program)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NORTH EAST PROVINCIAL COUNCIL OF SRI LANKA

Dated December 12, 2002

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

NORTH EAST RECONSTRUCTION AGREEMENT

AGREEMENT, dated December 12, 2002, between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the "Association") and the NORTH EAST PROVINCIAL COUNCIL (the "NORTH EAST PROVINCIAL COUNCIL") OF THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA, acting by the Governor of the NORTHERN AND EASTERN PROVINCES.

WHEREAS by the Agreement Amending Selected Development Credit Agreements (the "Part Z Amendment") of even date herewith between the Democratic Socialist Republic of Sri Lanka (the Borrower) and the Association, the Association has agreed to reallocate a portion of the proceeds of the Credit provided for in each Selected Development Credit Agreement (as such term is defined in the Part Z Amendment) for the purpose of financing emergency reconstruction activities in the Northern and Eastern provinces as set out in Part Z of Schedule 2 to the Selected Development Credit Agreements, but only on condition that the North East Provincial Council agree to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS, the North East Provincial Council, in consideration of the Association's entering into the Part Z Amendment 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 each Selected Development Credit Agreement to which this Agreement relates, the Part Z Amendment, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part Z of the Project

Section 2.01. (a) The North East Provincial Council declares its commitment to the objectives of Part Z of the Project as set forth in Schedule 2 to the Selected Development Credit Agreements, and, to this end, shall carry out Part Z of the Project, through its relevant departments and agencies under the overall coordination of the Provincial Committee, with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for such Part Z of the Project.

(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 carry out Part Z of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) The North East Provincial Council shall make the proceeds of the Credit available to the ministries and departments of the North East Provincial Council and other agencies responsible for implementation of Part Z of the Project, in accordance with arrangements and procedures satisfactory to the Association.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' 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 this Agreement.

Section 2.03. The North East Provincial Council shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 this Agreement.

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

(b) The North East Provincial Council shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part Z of the Project, the accomplishment of the purposes of the Credit for Part Z of the Project, 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 a format acceptable to the Association, adequate to reflect in accordance with sound accounting practices its operations and financial condition, and to register separately the operations, resources and expenditures relating to Part Z of the Project and of the departments and agencies of the North East Provincial Council responsible for carrying out Part Z of the Project.

(b) The North East Provincial Council shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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 Fiscal Year, the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the North East Provincial Council shall provide to the Association for every six-month period, beginning with the six-month period ending on December 31, 2002, a certificate of expenditure from an independent auditor acceptable to the Association evidencing the expenditures of its departments in respect of Part Z of the Project in accordance with appropriate accounting principles and procedures, such certificate to be provided within 2 months after the end of each such six-month period.

(b) Without limitation upon the North East Provincial Council's progress reporting obligations 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 Part Z of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under Part Z of the Project,

and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in implementation of Part Z of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of Part Z of the Project; and
- (iii) sets forth the status of procurement under Part Z of 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 date of effectiveness under the Part Z Amendment, 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 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 of effectiveness of the Part Z Amendment.

Section 4.02. This Agreement and all obligations of the Association and of the North East Provincial Council thereunder shall terminate on the last date on which any Selected Development Credit Agreement shall terminate in accordance with its terms, and the Association shall promptly notify the North East Provincial Council thereof.

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, telegram, cable, 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. 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:

INTBAFRAD
Washington, D.C.

248423 (MCI); or
64145 (MCI)

For the North East Provincial Council:

Chief Secretary
North East Provincial Council
Government of the Democratic Socialist Republic of Sri Lanka
Trincomalee
Sri Lanka

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 its Chief Secretary or such other person or persons as the North East Provincial Council 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 Trincomalee, 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/ S. Rangarajah

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the World Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods and equipment required for Part Z of the Project estimated to cost less than \$100,000 equivalent, per contract, may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works required for Part Z of the Project estimated to cost \$20,000 equivalent or more, per contract may be procured under contracts awarded on the basis of competitive bidding advertised nationally, in accordance with procedures satisfactory to the Association and the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(c) In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section 1 of the Guidelines:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least 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 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 firm declared as the lowest evaluated bidder shall be given a reasonable opportunity of registering, 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 bidders;
- (viii) post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (ix) rebidding shall not be carried out without 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. National Shopping

Individual pieces of furniture, training materials and publications estimated to cost less than US\$30,000 equivalent per contract, up to an aggregate amount not to exceed US\$350,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Three Quotations/Direct Contracting/Force Account

Civil works estimated to cost less than US\$20,000 per contract shall be procured in accordance with the following provisions.

- (i) Lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.
- (ii) With the Association's prior agreement, under direct contracting in accordance with the provisions of paragraph 3.7 of the Guidelines.
- (iii) As a last resort and, if the proposed contracts meet the requirements of paragraph 3.8 of the Guidelines, they may be carried out, with the Association's prior agreement, by force account in accordance with the provisions of said paragraph of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for Part Z of the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 in the Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with a procurement plan approved by the Association, and with the provisions of paragraph 1, mentioned above. The procurement plan shall be updated every three months during the execution of Part Z of the Project, and each updated plan shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with selection plan, updated from time to time, as approved by the Association.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to:

(a) the first two contracts awarded in each of the following categories during each Fiscal Year following the date of effectiveness of the Part Z Amendment commencing with the Fiscal Year 2003-04;

(i) contracts for goods procured through international competitive bidding;

(ii) contracts for works procured through national competitive bidding; and

(iii) contracts for goods procured through national competitive bidding;

(b) each contract for goods estimated to cost US\$250,000 equivalent or more; and

(c) each contract for works estimated to cost US\$500,000 equivalent or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedure set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the World Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality-and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under Part Z of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Contracts for consulting services, including services of non-governmental organizations for providing community health intervention and awareness programs, estimated to cost less than US\$100,000 equivalent per contract shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

3. Least-cost Selection

Services estimated to cost less than US\$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection of U.N. Agencies as Consultants

Services for monitoring and evaluation activities and conducting training workshops under Part Z.1 of the Project (health component) estimated to cost not more than US\$500,000 equivalent shall be procured in accordance with paragraphs 3.9 and 3.13 of the Consultant Guidelines.

5. Service Delivery Contracts

Services to be provided by medical personnel under Part Z.1 of the Project (health component) estimated to cost less than US\$10,000 per contract up to an aggregate amount not to exceed US\$500,000 shall be procured in accordance with paragraph 3.19 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association, for its review and approval, prior to the issuance to consultants of any requests for proposals. The plan shall be updated every three months during the execution of Part Z of the Project, and each updated plan shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with selection plan, updated from time to time, as approved by the Association.

2. Prior Review

- (a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

- (b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience and the terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

1. The North East Provincial Council shall carry out civil works under Part Z of the Project to be financed out of the proceeds of the Credit in accordance with design standards and technical specifications satisfactory to the Association.
2. The North East Provincial Council shall not carry out any reconstruction of houses involving relocation of people to new areas under Part Z of the Project to be financed out of the proceeds of the Credit unless the North East Provincial Council ensures that no involuntary resettlement arises from any use of land, or change of land use for such relocation, except to the extent that the Association agrees in writing prior to any such proposed land use that arrangements for involuntary resettlement, if any, are satisfactory to the Association.
3. The North East Provincial Council shall implement Part Z of the Project or cause such part to be implemented in accordance with the Part Z Implementation Plan and shall ensure that any changes made thereto would not adversely affect the ability of its ministries and departments or any other agencies responsible for implementing Part Z of the Project.
4. Subject to paragraph 14 of Schedule 1 of each Selected Development Credit Agreement (as amended by the Part Z Amendment), the North East Provincial Council shall carry out activities relating to Part Z.3 of the Project (rehabilitation of internally displaced persons) strictly in accordance with the Acceptable Rehabilitation Criteria.
5. The North East Provincial Council shall, within 7 days after the end of each month commencing the date of effectiveness of the Part Z Amendment, provide to the Association for the next six months, monthly reports on the progress of carrying out Part Z of the Project. Thereafter, the North East Provincial Council shall provide quarterly reports to the Association within 15 days after the end of each quarter describing the progress achieved to date in implementing Part Z of the Project. All such reports shall be prepared in a format satisfactory to the Association.
6. The North East Provincial Council shall implement Part Z of the Project in accordance with the Environment Assessment and Management Framework and the Social Safeguards Framework.
7. 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 indicators satisfactory to the Association, the carrying out of Part Z 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 December 31, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph, on the progress achieved in the carrying out of Part Z 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 Part Z of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by February 29, 2004, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part Z of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.