

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4039 CE
GRANT NUMBER H-147 CE

Development Financing Agreement

(Tsunami Emergency Recovery Project – Phase II)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 1, 2005

Public Disclosure Authorized



CREDIT NUMBER 4039 CE
GRANT NUMBER H-147 CE

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated April 1, 2005, between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) following the devastating impact of tsunami tidal waves on the Borrower's territory on December 26, 2004, the Association and the Borrower entered into an Agreement Amending Selected Legal Agreements or the "Part Z Amendment" to finance the first phase of an emergency recovery and reconstruction program by utilizing unwithdrawn funds allocated to various existing projects in the Borrower's territory financed by the Association;

(B) the Borrower having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, which is the second phase of its emergency recovery and reconstruction program, has requested the Association to assist in the financing of the Project; and

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit and the Grant to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 5 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Affected Area” means the districts of Amparai, Batticaloa, and Trincomalee in the East; Jaffna and Mullaitivu in the North; Galle, Hambantota and Matara in the South; and Kalutara in the West, and any other districts that the Association and the Borrower jointly designate;

(b) “Acceptable Assistance Criteria” means the criteria and guidelines, in form and substance satisfactory and acceptable to the Association, governing Cash Grants;

(c) “Cash Grants” means cash payments for livelihood support to affected individuals and families under Part B of the Project (as defined in Schedule 2 to this Agreement);

(d) “Eligible Categories” means Categories (1) and (2) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services, and Cash Grants referred to in Section 2.02 of this Agreement;

(f) “Environment and Social Framework” means the Borrower’s Environmental and Social Screening and Assessment Framework dated February 6, 2005, satisfactory to the Association, including any amendments made to such documents from time to time with the Association’s approval, that contain measures to address any environmental or social impact arising from carrying out the Project;

(g) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “Implementation Plan” means the Borrower’s plan, which is satisfactory and acceptable to the Association, that includes operating procedures, financing management arrangements, and procurement matters to implement the Project, including any updates made from time to time with the Association’s approval;

(i) “Procurement Plan” means the Borrower’s procurement plan covering the initial 18-month-period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement to cover succeeding 18 month periods of Project implementation.

(j) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Financing Accounts referred to in Part A.5 of Schedule 1 to this Agreement;

(k) “Special Account” means the account referred to in Part B.1 of Schedule 1 of this Agreement; and

(1) "Sub-grants" means grants from the Financing proceeds provided by the Borrower to beneficiaries for carrying out emergency recovery and reconstruction activities in accordance with operating procedures satisfactory and acceptable to the Association.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to thirty million two hundred thousand Special Drawing Rights (SDR 30,200,000) (the Credit); and

(b) an amount in various currencies equivalent to twenty million one hundred thousand Special Drawing Rights (SDR 20,100,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in accordance with the provisions of Schedule 1 to this Agreement, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works, services, and Cash Grants required for the Project and to be financed out of the proceeds of the Financing.

Section 2.03. The Closing Date shall be September 30, 2008, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2015 and ending January 15, 2045. Each installment to and including the installment payable on January 15, 2025, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out, and shall cause various implementing agencies (including provincial councils, districts, statutory authorities, and government departments), to undertake their respective obligations to carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, environmental, technical, and public health policies, guidelines, practices, rules, regulations, and laws, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall:

- (i) implement the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement and the Environmental and Social Framework;
- (ii) make all efforts required on its part to cause various implementing agencies (including provincial councils, districts, statutory authorities, and government departments) to undertake their respective obligations to carry out the Project in accordance with the provisions of this Agreement and the Environmental and Social Framework; and
- (iii) take, or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable various implementing agencies (including provincial councils, districts, statutory authorities, and

government departments) to perform their respective obligations to carry out the Project, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works, and services required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 3 to this Agreement, as these provisions may be further elaborated in the Procurement Plan.

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

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Association, a plan to ensure continued achievement of the objectives of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall 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 the operations, resources, and expenditures related to the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association), 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 (6) 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 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.

(c) For all expenditures with respect to which withdrawals from the Financing Accounts were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Financing Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4, the Borrower 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 Financing, 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 such calendar quarter.

ARTICLE V

Effectiveness and Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01(b) of the General Conditions, namely, that the Borrower has established satisfactory and acceptable financial management arrangements to carry out the Project.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, Ministry of Finance and Planning, of the Borrower, or such other person authorized by the Secretary, is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address: Telex:

SECMINFIN FINMIN 2140994-11-449823
FORAID 2123294-11-447633

For the Association:

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

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

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.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ P.B. Jayasundera

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Peter Harrold

Country Director
Sri Lanka

SCHEDULE 1

A. Withdrawal of the Proceeds of the Financing

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

| <u>Category</u> | <u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u> | <u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u> | <u>% of Expenditures to be Financed</u> |
|--|---|--|---|
| (1) Goods, works, consultants' services (including audits) training, Sub-grants, and operating costs | 25,350,000 | 15,250,000 | 100% |
| (2) Cash Grants | 4,850,000 | 4,850,000 | 100% |
| | _____ | _____ | |
| TOTAL | 30,200,000 | 20,100,000 | |
| | ===== | ===== | |

2. Notwithstanding the provisions of paragraph 1, above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of: (i) SDR6,040,000 from the Credit proceeds and (ii) SDR4,020,000 from the Grant proceeds may be made in respect of Categories (1) and (2) and on account of payments made for expenditures before that date but after December 25, 2004.

3. The Association may require withdrawals from the Financing Account to be made on the basis of statements-of-expenditures for: (a) goods and works under contracts not exceeding US\$200,000 equivalent; (b) consultants services under contracts not exceeding US\$100,000 equivalent for employment of consulting firms and US\$50,000 equivalent for employment of individual consultants; (c) training; (d) Sub-grants; (e) works procured under force account; (f) operating costs; and (g) Cash Grants, all under such terms and conditions as the Association shall specify by notice to the Borrower.

4. If the Association shall have determined at any time that any amount of the Financing was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Financing Account, an amount equivalent to the amount so used.

5. The Borrower may request withdrawals from the Financing Accounts to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the Financial Monitoring Report and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Financing Accounts, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in its central bank, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Financing Accounts of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Financing Account; or

(c) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account or the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account or the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Financing Agreement.

Annex A
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of US\$4,300,000 to be withdrawn from the Credit Account or the Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Account such amount as the Borrower shall have requested.
 - (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the Eligible Categories.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit and the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B
to
SCHEDULE 1
Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account and the Grant Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit or the Grant, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of this Project is to assist the Borrower in carrying out the second phase of an emergency recovery and reconstruction program in the Affected Areas as a consequence of the massive destruction and devastation following the tsunami and tidal waves in December 2004 and other similar incidents.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Emergency Recovery, Rehabilitation and Reconstruction Activities

Carrying out of emergency recovery and reconstruction activities in Affected Areas in various sectors including, but not limited to, health, education, infrastructure, roads, housing, capacity building, long-term hazard-and-risk management, training, and support for small-and-medium enterprises, by providing goods, services, training, operating costs, and Sub-grants, and carrying out works required for this purpose.

Part B: Cash Grants for Livelihood Support

Livelihood support to individuals and families in the Affected Areas through the provision of Cash Grants in accordance with Acceptable Assistance Criteria.

* * *

The Project is expected to be completed by March 31, 2008.

SCHEDULE 3

Procurement

Section I. General

A. Notwithstanding anything in this Agreement, all goods, works, and services (other than consultants' services) for the Project 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.

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 Borrower's territory.

B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers may be procured under contracts awarded on the basis of Limited International Bidding.

2. (a) National Competitive Bidding. Goods estimated to cost US\$50,000 equivalent per contract or more but less than US\$500,000 equivalent per contract and works estimated to cost more than US\$100,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

- (i) the Borrower shall only use the country-specific-model bid documents for National Competitive Bidding as agreed with the Association (and as amended from time to time);
- (ii) the Borrower shall advertise invitations to bid in at least one widely circulated national daily newspaper twenty one days prior to the deadline for the submission of the bids;
- (iii) the Borrower shall make available bidding documents by mail or in person to all who are willing to pay a required fee;
- (iv) there shall not be any restrictions on the means of delivery of the bids;
- (v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders, state-owned enterprises, and small-scale enterprises in the bidding process;
- (vi) bids shall be opened in public in one location, immediately after the deadline for submitting them;
- (vii) qualification criteria (in case a pre-qualification was not carried out) shall be stated in the bid document, and if a registration process is required, a foreign bidder, if declared as the lowest-evaluated responsive bidder, shall be given a reasonable time to register, without let or hindrance;
- (viii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and within the specified period stipulated by the Association;
- (ix) bids shall not be rejected merely on the basis of a comparison with an official estimate without prior concurrence of the Association;
- (x) contracts shall be awarded to the lowest-evaluated responsive bidders;
- (xi) except with the prior concurrence of the Association, there shall be no negotiation of price with any bidders, including the lowest-evaluated bidder;
- (xii) re-bidding shall not be carried out, except with the Association's prior concurrence;

- (xiii) all contractors shall provide performance security as indicated in the contract documents;
- (xiv) a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xv) except in cases of force majeure or situations beyond the control of an implementing agency, the following requests for extending bid validity shall not be granted without the Association's prior concurrence:
 - (A) the first request for an extension if the extension period is longer than four weeks; and
 - (B) all subsequent extension requests irrespective of the period; and
- (xvi) bids shall not be invited on the basis of a percentage premium or discount over the estimated cost without the Association's prior concurrence.

2. (b) Notwithstanding anything in the foregoing paragraph, based on specific needs, the Association may agree to allow the Borrower to use contract documents prepared by its national procurement agency that are satisfactory and acceptable to the Association.

3. Shopping. Works estimated to cost less than US\$100,000 equivalent per contract, goods estimated to cost less than US\$50,000 equivalent per contract, and services (other than consultants' services) estimated to cost less than US\$10,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Goods, which the Association agrees, meet the requirements for Direct Contracting, such as those of a proprietary nature, software, school textbooks, including reprinting, periodicals, small value drugs and spare parts for existing equipment, may be procured in accordance with the provisions of this procurement method.

5. Force Account. Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of this procurement method.

6. Community Participation. Goods, works, and services required for housing and small works reconstruction activities may be procured on the basis of community participation in accordance with paragraph 3.17 of the Procurement

Guidelines and procedures identified in the Implementation Plan that are approved by the Association.

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 U.S.\$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 US\$200,000 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 4

Implementation Program

General Implementation Obligations

1. The Borrower shall not undertake, nor shall cause its implementing agencies (including provincial councils, districts, statutory authorities, and government departments) to undertake, any recovery or reconstruction activities under the Project (including any activities financed by Sub-grants) that could cause any environmental or social impacts in the absence of an approved Environmental and Social Framework that is satisfactory to the Association.

2. The Borrower shall implement, and shall cause its various implementing agencies (including provincial councils, districts, statutory authorities, and government departments) to implement, the Project (including any activities financed by Sub-grants) in accordance with the Environment and Social Safeguards Framework.

3. Without prejudice to the generality of the foregoing paragraphs (1) and (2), the Borrower shall ensure that all civil works under the Project (including any activities financed by Sub-grants) to be financed out of the Financing proceeds are carried out in accordance with design standards and technical specifications satisfactory to the Association and the relevant provisions of the Environmental and Social Framework.

4. The Borrower shall not, nor shall cause any implementing agencies (including provincial councils, districts, statutory authorities, and government departments) to, carry out any reconstruction of houses involving relocation or resettlement of people to new areas under the Project without making arrangements, which are satisfactory and acceptable to the Association.

5. The Borrower shall not undertake any involuntary land acquisition using the Financing proceeds.

Cash Grants for Livelihood Support

6. The Borrower shall ensure that all Cash Grants under the Project are made strictly in accordance with the Acceptable Assistance Criteria and any other procedures and arrangements agreed with the Association in writing.

Use of Financing Proceeds

7. Without prejudice to the Borrower's obligations under Section 9.04 of the General Conditions to ensure that all goods, works, consultant services, training, operating costs, Sub-grants, and Cash Grants financed out of the Financing proceeds are used exclusively for the Project, the Borrower shall ensure that, under no circumstances,

any proceeds of the Financing 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, Cash Grants, and Sub-grants or on the importation, manufacture, procurement or supply thereof.

8. If any Financing proceeds are used in a manner inconsistent with the provisions of this 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 this Agreement, the Borrower 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 Financing proceeds so used, withdrawn, or utilized.

Land Mines

9. The Borrower shall ensure that no project activities are carried out in high security area or areas containing a significant risk of land mines without receiving appropriate and necessary clearances from designated authorities. In particular, the Borrower 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.

10. The Borrower 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 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 February 28, 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 the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 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.

SCHEDULE 5

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is modified to read:

“Section 1.01. *Application of General Conditions*

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may

from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

- (b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.
- (c) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

- 8. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Financing Agreement, the proceeds of the Financing may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Financing, or on their importation, manufacture, procurement or supply. The financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Financing is excessive or otherwise unreasonable, the Association may, by notice to the Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such item in the Development Financing Agreement as required to be consistent with such policy of the Association.”

- 9. Article VI is modified as follows:

- (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
- (b) Section 6.03(c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.
- (c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Section 7.01 is modified to read as follows:
 - (a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.
 - (b) The word “credit” in paragraph (b)(i) is replaced with the words “credit, grant or financing”.

11. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”