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CREDIT NUMBER 4428-CE

Financing Agreement

(Additional Financing for North-East Housing Reconstruction Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 16, 2008

FINANCING AGREEMENT

AGREEMENT dated September 16, 2008, entered into between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). 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 twenty six million two hundred thousand Special Drawing Rights (SDR 26,200,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 January 15 and July 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 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 — 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 the Secretary, Ministry of Finance and Planning.
- 5.02. The Recipient's Address is:

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

Cable:

Telex:

Facsimile:

SECMINFIN

FINMIN 21409

94 11 2449823
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 at Colombo, Democratic Socialist Republic of Sri Lanka, as of
the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By

/s/ PUNCHI BANDARA JAYASUNDERA
Authorized Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist conflict-affected communities in the Recipient's Northern Province and Eastern Province with housing improvement and reconstruction.

The Project consists of the following activities under Original Project, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

Part A: Housing Assistance

Financing a phased program of housing reconstruction and repair for conflict-affected communities.

Part B: Housing Technical Support and Monitoring

Strengthening institutional and administrative capacity to manage large-scale housing repair and reconstruction. Activities will include the following:

1. Supporting multi-disciplinary, mobile land-task-forces for each district to assist in the resolution of land disputes.
2. Undertaking skills-training for workers, such as masons and carpenters, who are involved in housing-construction activities.
3. Technical assistance for project implementation.

Part C: Program Management

Strengthening the North-East Housing Reconstruction Unit to implement and manage this Project and subsequent housing initiatives in the area.

1. Support for the North-East Housing Reconstruction Unit to cover staff costs, incremental operating costs, and goods.
2. Support for administrative costs of the district program units to be established across the Northern Province and Eastern Province.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall:
 - (a) throughout the period of Project implementation, maintain the North-East Housing Reconstruction Unit with adequate staff, power, functions, and resources to implement this Project in a satisfactory manner;
 - (b) appoint and retain throughout the period of Project implementation, in accordance with terms of reference, qualifications, and experience satisfactory to the Association a full-time Project director and regular staff (including technical and financial management specialists) for the North-East Housing Reconstruction Unit; and
 - (c) cause the internal audit unit of the North-East Housing Reconstruction Unit to assist the Chief Internal Auditor, all departments and entities including without limitation, the North-East Housing Reconstruction Unit, district project offices, and Community-Based Organizations in carrying out Project implementation from time to time, to ensure compliance with financial procedures, technical norms, and standards agreed with the Association regarding financial management and technical audits of the Project.

B. Appraisal, Evaluation, and Implementation of Reconstruction and Repair Activities

1. The Recipient shall at all times, implement the Project in accordance with the Operational Manual, the Financial Manual, the Social Safeguards Framework, and the Environmental Management Framework; and, except as the Association may otherwise agree, the Recipient shall not amend or waive any provision of these manuals or the frameworks, if the Association believes that such amendment or waiver may adversely affect implementation of the Project or the achievement of its objectives.
2. The Recipient shall:
 - (a) prepare and implement Environmental Management Plans in accordance with the Environmental Management Framework for all construction works supported under Part A of the Project;

- (b) ensure that all housing reconstruction and repair activities to be undertaken under Part A of the Project are identified, selected, and appraised in accordance with the criteria and procedure specified in the Operational Manual, the Environmental Management Framework, and the Social Safeguards Framework; and
- (c) ensure that all housing reconstruction and repair activities to be financed under the Project are fully consistent with environmental and social criteria set out in the Operational Manual, the Environmental Management Framework, and the Social Safeguards Framework.

C. Terms and Conditions of Sub-Grants

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

- (a) payments will be used exclusively to finance housing reconstruction or repair activities in accordance with terms and conditions set forth in the Operational Manual;
- (b) goods, works and services to be financed by the payments must be consistent with any procedures specified in the Operational Manual;
- (c) goods, works, and services will be used exclusively for carrying out the identified and agreed housing reconstruction and repair activities;
- (d) expenditures reimbursed through these payments must be exclusive of taxes, levies, fees, or other surcharges by any, non-government, local entity, cadre, or other organization;
- (e) the right of the Association, or an entity designated by the Association, to inspect, by itself, or jointly with the Recipient, the goods, work sites, and construction activities, any relevant records and documents associated with these activities;
- (f) the right of the Association to obtain all information as the Recipient or the Association shall reasonably request regarding the administration, operations, and financial condition of a contractor, Community-Based Organization, or any other entity undertaking housing reconstruction and repair activities; and
- (g) the right of the Recipient (or an entity or individual designated by it to manage or oversee this Project) to suspend or terminate the right of a beneficiary (including a village community) to use the Sub-grant if the

beneficiary fails to perform its obligations under the applicable legal documents.

D. Safeguards and Land Mines

1. The Recipient shall ensure that no Project activities are carried out in high security areas or areas containing a significant risk of land mines without receiving appropriate and necessary clearances from designated authorities in its Ministry of Defense. In particular, the Recipient 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.
2. The Recipient shall ensure that the Project shall not involve any involuntary land acquisition. All land requirements for implementing the Project shall be met in accordance with the applicable provisions of the Social Safeguards Framework.

E. Anti-Corruption

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

The Recipient shall:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with agreed indicators, the carrying out of the Project and the achievement of the objectives thereof;
- (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
- (c) review with the Association, by December 31, 2009, 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.

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 on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) 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 fiscal year of the Recipient. 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.** All goods 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

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

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

Procurement Method	
(a)	<i>National Competitive Bidding*</i>
(b)	<i>Shopping</i>
(c)	<i>Direct Contracting</i>
(d)	<i>Community Based procurement**</i>

*In order to ensure economy, efficiency, transparency and broad consistency with the provision of the Procurement Guidelines, the procurement of goods and works through National Competitive Bidding shall be subject to the following requirements:

- (i) only the Recipient's specific model bidding documents for national competitive bidding, as agreed with the Association (and as amended from time to time in agreement with the Association) shall be used for bidding for the procurement of goods under National Competitive Bidding;
- (ii) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least twenty one (21) days prior to the deadline for the submission of bids;
- (iii) bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iv) there shall not be any restrictions on the means of delivery of the bids, which shall be either through post or hand delivered; electronic submissions shall not be permitted.
- (v) 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 should be accorded to any enterprises or bodies;
- (vi) qualification criteria 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 time for registering, without let or hindrance;

- (vii) bids shall be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding documents. The bidding documents should indicate the date, time and place of bid opening;
- (viii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and within a specified period agreed with the Association, and within the bid validity period indicated in the bidding documents;
- (ix) bids shall not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association;
- (x) contracts shall be awarded to the lowest evaluated bidders;
- (xi) except with the prior concurrence of the Association, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder;
- (xii) re-invitation of bids shall not be carried out without the prior concurrence of the Association;
- (xiii) all bidders/contractors shall provide a bid/performance security as required in the bidding/contract documents;
- (xiv) 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;
- (xv) bids shall not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association; and
- (xvi) unless justified by *force majeure* and/or exceptional situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association, for: (a) the first request for extension if it is longer than four weeks; and (b) all subsequent requests for extension irrespective of the period.

**To be procured only after clearance from the Association for the specific goods to be procured following these procedures.

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.

Procurement Method	
(a)	Quality Based Selection
(b)	Selection under a Fixed Budget
(c)	Least Cost Selection
(d)	Selection Based on Consultants' Qualifications
(e)	Single Source Selection
(f)	Selection of Individual Consultants

D. 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. 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).
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 the Credit to each Category, and the

percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Sub-grants under Part A of the Project	24,490,000	100%
(2) Goods	180,000	100%
(3) Consultants services	1,400,000	100%
(4) Training	130,000	100%
TOTAL AMOUNT	26,200,000	

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.
2. The Closing Date is December 31, 2011.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 15 and July 15, commencing July 15, 2018, to and including January 15, 2028	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

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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Community-Based Organization” means a rural community-based organization, association, society, village rehabilitation committee or user group that satisfies the eligibility criteria in the Operational Manual.
4. “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.
5. “Environmental Management Plan” means an action plan, prepared pursuant to the Environmental Management Framework whose substance shall be acceptable to the Association, for the mitigation of potential adverse environmental impact caused by activities supported under the Project, as the same may be amended from time to time with the agreement of the Association.
6. “Environmental Management Framework” means the Environmental Assessment and Management Framework dated June 11, 2004, satisfactory and acceptable to the Association (including any amendments thereto approved by the Association) that contains, among other things, institutional and technical guidelines: (i) to reduce any adverse environmental and forest impacts under the Project; and (ii) for preparing village-specific environmental impact assessments.
7. “Financial Manual” means the Financial Management Manual, which forms part of the Operational Manual, containing policies and procedures for the Project’s financial management that are satisfactory and acceptable to the Association.
8. “Financial Monitoring Report” means each report prepared in accordance with Schedule 2, Section II, Paragraph B.2 of this Agreement.
9. “Fiscal Year” means the Recipient’s fiscal year commencing on January 1 and ending on the following December 31.

10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
11. “Ministry of Nation Building and Estate Infrastructure” means the Recipient’s ministry in charge of reconstruction and any successor thereto.
12. “North-East Housing Reconstruction Unit” means the unit maintained under the Ministry of Nation Building and Estate Infrastructure, or such other entity satisfactory and acceptable to the Association that will coordinate and carry out Project implementation.
13. “Operational Manual” means the Project Operation Manual (including any amendments made from time to time), satisfactory and acceptable to the Association, setting forth various operational, financial management, and procurement procedures governing the operation of the Project.
14. “Original Financing Agreement” means the development credit agreement for the North-East Housing Reconstruction Project between the Recipient and the Association, dated February 15, 2005, as amended to the date of this Agreement.
15. “Original Project” means the Project described in the Original Financing Agreement.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October, 2006.
17. “Procurement Plan” means the procurement plan for the Project, dated April 1, 2008, covering the initial eighteen-month period of the Project implementation, as the same may be updated from time to time in accordance with the provisions of Section 3.03 of the original Financing Agreement.
18. “Social Safeguards Framework” means the Social Safeguards and Risk Monitoring Management Framework for the Project that sets out, among other things: (i) measures to monitor activities for significant social impacts, and, if necessary, to assist in mitigation of such impacts; (ii) procedures to ensure that these measures are appropriately applied; (iii) capacity-building and monitoring arrangements; and (iv) guidelines to prepare a Resettlement Action Plan, if the need arises.
19. “Sub-Grant” means a grant made, or proposed to be made, to a beneficiary to finance goods, works and consultants’ services for housing reconstruction.