Mr. Sumith Abeysinghe  
Secretary  
Ministry of Finance and Planning  
Government of Sri Lanka  
The Secretariat  
Colombo 1, Sri Lanka  

Re: Sri Lanka: AusAID Grant Agreement for Co-Financing  
Emergency Northern Recovery Project (Cr.No.4676-LK)  
Grant Number: TF096422________________________

Dear Sir:

In response to the request for financial assistance made on behalf of Democratic Socialist Republic of Sri Lanka (“Recipient”), I am pleased to inform you that the International Development Association (“World Bank”), acting as administrator of grant funds provided by Australian Agency for International Development (“AusAID”) under the Emergency Northern Recovery Project (TF071431), proposes to extend to the Recipient, a grant in an amount not to exceed ten million five hundred thirty nine thousand and seventy United States Dollars (US$10,539,070) (“Grant”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the project described in the Annex (“Project”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Naoko Ishii
Authorized Representative

AGREED:
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By/s/ P. B. Jayasundera
Name ________________________________
Title Secretary
Date August 13, 2010

Enclosures:


Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 1, 2008 (“Standard Conditions”) constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Sri Lanka Northern Recovery Project (Cr.4676-LK) is to support the Recipient’s effort to rapidly resettle the IDPs to their original place of residence in the Northern Province and restore their social and economic life by creating an enabling environment that would be achieved through: (A) Emergency Assistance to IDPs; (B) Work-fare Program; (C) Rehabilitation and Reconstruction of Essential Public and Economic Infrastructure; and (D) Project Management Support. The purpose of this Grant is to co-finance the following activities under Part B of Schedule 1 to the Financing Agreement (Cr.4676-LK).

Part B: Work-Fare Program

Implementation of a work-fare program, which is intended to create immediate employment for Returnees in the Northern Province, such program to consist of carrying out small scale, labor intensive repair and rehabilitation works of village level infrastructure and facilities, and to continue in effect until the Returnees have identified reasonable income opportunities in the villages and adjoining areas.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Economic Development in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. **Institutional and Other Arrangements.** The Recipient shall carry out the project in accordance with the implementation program set forth in Schedule 2 to the Financing Agreement (Cr.4676-LK), *mutatis mutandis*. 
2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions as agreed with the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for such period shall be furnished to the Association not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 (“Procurement Guidelines”), in the case of goods and works;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the Cash-for-Work (Work-Fare) sub-project proposals prepared by the beneficiaries in accordance
with the procedures provided in the Operating Guidelines for the ENREP Cash-for-Work Program, as agreed with the Bank and as amended from time to time and agreed with the Bank.

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Works

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and works shall be procured under contracts awarded on the basis of National Competitive Bidding subject to the following additional procedures:

- The Sri Lanka–specific standard bidding documents, as agreed with the Bank (and as amended from time to time and agreed with the Bank) will be used.
- Invitations for bids will be advertised in at least one widely circulated national newspaper, and bidding documents will be made available at least twenty-one (21) days before, and issued up to, the deadline for submission of bids.
- Bidding documents will be issued by mail or in person to all who are willing to pay the required fee.
- Qualification criteria will be stated in the bidding documents, and if a registration process is required, a foreign firm declared as the lowest evaluated responsive bidder shall be given a reasonable time for registering, without let or hindrance.
- There will not be any restrictions on the means of delivery of the bids, which shall be either through mail hand-delivered. Electronic submissions will not be permitted.
- Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders (including state-owned enterprises or small-scale enterprises) in the bidding process. No special preferences will be accorded to any enterprises or bodies.
- Bids will 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 will indicate the date, time and place of bid opening).
- Evaluation of bids will be carried out in strict adherence to the criteria disclosed in the bidding documents, in a format and within the specified period agreed with the Bank, and within the bid validity period specified in the bidding documents.
- Contracts will be awarded to the lowest evaluated responsive bidder.
- Bids will not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Bank.
- Except with the prior concurrence of the Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.
- Re-invitation of bids will not be carried out without the prior concurrence of the Bank.
- Except in cases of force majeure or exceptional situations beyond the control of the implementing agency, the extension of bid validity will not be allowed without the prior concurrence of the Bank: (i) for the first request for extension if it is beyond eight weeks, and (ii) for all subsequent requests for extension irrespective of the period.
- All bidders and contractors shall provide bid and performance securities as required in the bidding and contract documents.
A bidder’s bid security will apply only to the specific bid, and a contractor’s performance security will apply only to the specific contract under which they are furnished.

Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Bank.

(ii) The following methods, other than National Competitive Bidding, may be used for procurement of goods and works for those contracts which the Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: (A) Shopping; (B) Direct Contracting; and (C) Community Participation procedures which have been found acceptable to the World Bank.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments, which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (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 Service Delivery Contractors which have been found acceptable to the World Bank; (G) Selection of Individual Consultants; and (H) Sole Source Procedures for the Selection of Individual Consultants.

(e) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) the first contract to be awarded in accordance with National Competitive Bidding, irrespective of value; (b) each contract for goods or works estimated to cost the equivalent of $100,000 or more procured on the basis of National Competitive Bidding, or Direct Contracting; and (c) each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more. All other contracts shall be subject to Post Review by the World Bank.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2011.

**Article IV**

Recipient’s Representative; Addresses

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Secretary, Ministry of Finance and Planning.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

   Facsimile: 94 11 2449823/94 11 2447633

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
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</thead>
<tbody>
<tr>
<td>(1) Goods and Consultant Services under part B of the Project for the Work-Fare Program</td>
<td>2,634,767</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Payments made under Part B of the Project for the Work-Fare Program</td>
<td>7,904,303</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>10,539,070</strong></td>
<td></td>
</tr>
</tbody>
</table>
4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development/
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391