Global Partnership on Output-based Aid
Grant Agreement

(Increasing Household Access to Domestic Sanitation in Greater Colombo)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
and
INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Administrator of the Global Partnership on Output-based Aid

Dated December 27, 2011
GLOBAL PARTNERSHIP ON OUTPUT-BASED AID
GRANT AGREEMENT

AGREEMENT dated December 27, 2011, entered into between the SOCIALIST REPUBLIC OF SRI LANKA ("Recipient") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT and INTERNATIONAL DEVELOPMENT ASSOCIATION (collectively, "World Bank"), acting as administrator of the Global Partnership on Output-based Aid ("GPOBA").

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank out of Various Funds, dated July 31, 2010 ("Standard Conditions"), 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 Standard Conditions or in the Appendix to this Agreement.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to five million and eighty thousand United States Dollars (US$5,080,000) ("Grant"), which has been received by the World Bank into the GPOBA Trust Fund Grant Number TF099870, to assist in financing the Project from the GPOBA Multi-donor trust fund.
3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds. Accordingly, in the event that any donor cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Recipient shall bear the risk of such funding shortfall and the World Bank shall not have any liability whatsoever to the Recipient or to any third parties in respect of any expenditures or liabilities incurred by the Recipient or any third parties in connection with this Agreement which exceed the amount of funds made available to the World Bank by the donors for the purposes of the Grant.

Article IV
Additional Remedies

4.01. The Additional Events of Suspension referred to in Section 4.02(k) of the Standard Conditions consists of the following: that the Project Implementing Entity's legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the said entity to perform any of its obligations under the Subsidiary Grant Agreement.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the following condition has been satisfied: that the Subsidiary Grant Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the
delay, establishes a later date for the purposes of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. **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.

6.02. **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

Cable: SECMINFIN
Telex: FINMIN 21409
Facsimile: 94 11 2449823

6.03 **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
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

AGREED at (ath
as of the day and year first above written.

SOCIALIST REPUBLIC OF SRI LANKA

By
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT AND INTERNATIONAL
DEVELOPMENT ASSOCIATION
acting as administrator of the Global Partnership on Output-based Aid

By
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to improve sanitation services to low-income households in Greater Colombo by increasing the number of sewerage house connections to existing and new sewerage networks and improving on-site sanitation services at household level.

The Project consists of the following parts:

Part A: New Household Connections to Reticulated (Networked) Sewerage

1. Direct Connections to existing sewers: provision of direct sewage connections to poor households as follows:
   (a) full cost direct connections comprising construction of all required infrastructure from all gray and black water outputs of the house to the sewerage network located under the nearest road; and
   (b) direct connection within premises limited to the infrastructure developed on the premises of households, including developing the network allowing the collection of all gray and black wastewater outputs from the house (but no drainage or rainwater) and the conveyance of said wastewater to the existing interconnection chamber.

2. Connections to conventional sewer extensions: provision of sewer extensions to households near heavily trafficked roads using conventional technology, as specified in the Project Implementation Manual.

3. Connections to simplified sewer extensions: provision of simplified sewer extensions (as specified in the Project Implementation Manual) linking existing connections to the sewerage network, including: (a) gravity fed connections to simplified sewer extensions; and (b) connections to simplified sewer extensions with pumping.

4. Connections to small networks with decentralized treatment systems: provision of connections to new standalone small networks with decentralized wastewater treatment systems, to households located in areas where sewerage is technically feasible but too far from the existing central sewerage network, to make an extension a viable economic option, and where there is no plan, to extend the centralized sewer network.

Part B: On-site Sanitation Improvements

Provision of on-site sanitation improvements to eligible households in areas where sewers cannot be provided or are not appropriate, including: (a) building new facilities to accommodate households that do not have on-site sanitation; or (b) rehabilitating the existing households’ on-site sanitation facility, including provision of regular desludging services such as septic tanks, vaults and pits and proper disposal of sludge.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Implementation Arrangements: Project Implementation Manual; Steering Committee; Output Verification

1. The Project Implementation Entity shall be responsible for the implementation of all Parts of the Project.

2. (a) The Recipient shall cause the Project Implementing Entity to adopt the Project Implementation Manual, which includes, *inter alia*, detailed description of the Project, activities to be carried out under the Project and the implementation arrangements, including: (i) description of the roles and responsibilities of the Recipient and the Project Implementing Entity; (ii) the procedures to verify and certify the outputs; (iii) the eligibility criteria for the selection of Beneficiaries, sub-projects and terms and conditions of Subsidies, including detailed disbursement conditions and arrangements of Subsidies; (iv) procurement and financial management procedures; (v) monitoring and evaluation arrangements; (vi) reporting requirements; and (vii) guidelines and procedures describing the environmental and social safeguards mitigation measures acceptable to the World Bank, as described in the Environmental and Social Safeguards Framework.

(b) The Recipient and the Project Implementing Entity shall not amend or change any part of the Project Implementation Manual without the prior approval of the World Bank.

(c) In the event that any provision of the Project Implementation Manual shall be in conflict with any provision of this Agreement, the provisions of this Agreement shall prevail.

3. The Recipient shall cause the Project Implementing Entity to maintain adequate staffing and resources to ensure the proper implementation of the Project.

4. The Recipient shall ensure that the counterpart funding required, as set out in the Project Implementation Manual, shall be provided in due time to ensure timely implementation of the Project.

5. The Recipient shall maintain throughout the period of Project implementation, the Steering Committee, to: (a) provide strategic directions and approve implementation plan for the Project; (b) ensure coordination among relevant departments; (c) oversee and provide overall guidance to the Project Implementing Entity; and (d) monitor progress of the implementation of the Project.
IVA

6. The IVA shall be responsible for independently verifying the delivery of quality and operationally sound outputs under the Project for which the Project Implementing Entity requests the payment of a Subsidy.

7. Notwithstanding the provision of paragraph 6 above, the IVA shall be responsible for verifying and confirming the technical requirements for the use of conventional technology prior to commencing any construction under Part A.2 of the Project in Schedule 1 of this Agreement.

8. The Recipient shall pay a Subsidy to the Project Implementing Entity for each output verified by the IVA as set out below:

(a) **Output under Part A of the Project - Connections to sewerage:**

   (i) 50% of the unit Subsidy amount will be paid after connections are realized and verified (on a sample basis) by the IVA; and

   (ii) the remaining 50% will be paid after six (6) months of continuous service delivery.

(b) **Output under Part B - Improved on-site sanitation systems and services:**

   A per household Subsidy will be paid in eight (8) quarterly installments once satisfactory service has been delivered and households are receiving their water supply and sewerage bills.

B. **Subsidiary Grant Agreement**

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Grant available to the Project Implementing Entity under a Subsidiary Grant Agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the World Bank, which shall include *inter alia* the following terms:

   (a) The Grant shall be made available to the Project Implementing Entity in U.S. Dollars.

   (b) The Project Implementing Entity shall undertake to carry out the Project with due diligence and efficiency and in accordance with appropriate management, financial, engineering and public utility practices, and social and environmental standards acceptable to the World Bank, and shall provide, promptly as needed, the facilities, the agreed counterpart funding, as set out in the Project Implementation Manual, and other resources required to ensure timely implementation of the Project.
(c) The Project Implementing Entity shall maintain adequate staffing and resources to ensure the proper implementation of the Project, including the appointment of a Project Director within its staff, responsible for coordinating all aspects of the Project implementation. The Project Director will also be the focal point on all aspects related to the Project. In addition to the Project Director, the Project Implementing Entity shall appoint, on a full-time basis, at least two (2) engineers, four (4) technical officers, one (1) sociologist, one (1) secretary, two (2) drivers and two (2) vehicles able to go to the Project areas.

(d) The Project Implementing Entity shall undertake to procure the goods, works and consultants' services, to be financed out of the proceeds of the Grant, in accordance with the provisions of Section III of this Schedule 2.

(e) The Project Implementing Entity shall undertake to:

(i) maintain a financial management system and records and accounts adequate to reflect sound accounting practices, its operations and financial condition;

(ii) retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Project until at least the later of: (A) one (1) year after the Recipient and the World Bank have received the audited financial statements covering the period during which the last withdrawal from the Grant Account was made; and (B) two (2) years after the Closing Date;

(iii) enable the Recipient and the World Bank's representatives to examine such records; and

(iv) monitor and evaluate the progress of the Project in accordance with the provisions of the Standard Conditions and the indicators set out in the Project Implementation Manual.

(f) The Recipient shall have the right to suspend or terminate the right of the Project Implementing Entity to the use of the proceeds of the Grant made available under the Subsidiary Grant Agreement upon failure by the Project Implementing Entity to perform its obligations under such agreement.

2. The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Project. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any of its provisions.
C. Safeguards

1. The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the Environmental and Social Safeguards Framework.

2. The Recipient shall cause the Project Implementing Entity to prepare a sub-project environmental assessment report, including an environmental management plan, satisfactory to the World Bank, for each sub-project to be financed by the Grant, in accordance with the guidelines set out in the Environmental and Social Safeguards Framework.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”).

E. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors’ support for the Project.

2. 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 Donors to visit any part of the Recipient’s territory for purposes related to the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. 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 and on the basis of indicators set out in the Project Implementation Manual acceptable to the World Bank. Each Project Report shall cover the period of one (1) calendar trimester, and shall be furnished to the World Bank not later than ten (10) working days after the end of the period covered by such report.

2. 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 (6) months after the Closing Date. In addition, not later than one (1) month after, respectively, the first and second anniversaries of the Closing Date, the Recipient shall prepare and submit to the World Bank reports (“Post Project Reports”), each of such scope and in such detail as the World Bank shall reasonably request and setting
out measures designed to ensure the continued efficient and effective achievement of the Project's objectives.

B. Financial Management; Financial Reports; Audits

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient shall, upon the World Bank's request, have its Financial Statements for the Project 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 indicated in the World Bank's request. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the date of the World Bank's request.

Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, works, non-consulting services and consultants' 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:

   (a) Section I of the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Procurement Guidelines") in the case of goods, works and non-consulting services, and Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Consultant Guidelines") in the case of consultants' services; and

   (b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

2. Definitions. The capitalized terms used below in 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.
B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. National Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of National Competitive Bidding. In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non consultant services procured under the National Competitive Bidding (“NCB”) method shall be subject to the following requirements:

(a) Only the model bidding documents for NCB agreed with the World Bank shall be used for bidding;

(b) Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least twenty one (21) days before, and issued up to, the deadline for submission of bids;

(c) 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;

(d) Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time and place of bid opening);

(e) Except in cases of force majeure or exceptional situations beyond the control of the Project Implementing Agent, the extension of bid validity will not be allowed;

(f) Bids will not be rejected merely on the basis of a comparison with an official estimate;

(g) Except with the prior concurrence of the World Bank, there will be no negotiation of price with bidders, even with the lowest evaluated bidder;

(h) 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; and

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

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than National Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those
contracts specified in the Procurement Plan: (a) Limited International Bidding; (b) Shopping; and (c) Direct Contracting.

C. **Review by the World Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Section IV. Withdrawal of Grant Proceeds**

A. **General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of 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 table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Subsidies to Beneficiaries</td>
<td>5,080,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>5,080,000</td>
<td></td>
</tr>
</tbody>
</table>

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 referred to in Section 3.06(c) of the Standard Conditions is December 31, 2015.
APPENDIX
Definitions

(a) "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 and revised in January 2011 ("Anti-Corruption Guidelines").

(b) "Beneficiary" or "Beneficiaries" means the household or households having gained access to improved sanitation services under the Project.

(c) "Category" means the category set forth in the table in Section IV of Schedule 2 to this Agreement.

(d) "Consultants' Guidelines" means the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011.

(e) "Environmental and Social Safeguards Framework" means the Recipient’s framework, dated July 2011 agreed with the World Bank and referred to in Section I, paragraph C of Schedule 2 to this Agreement, describing inter alia, relevant environmental and social eligibility criteria, the procedures for review and implementation of environmental and social mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, that have been identified by the Recipient to eliminate any adverse environmental impacts of the Project, offset them, or reduce them to acceptable levels, or enhance positive impacts; and said Framework also includes procedures for the preparation of sub-project environmental assessment reports and environmental management plans and a land acquisition and involuntary resettlement framework, as the same may be modified from time to time with the prior written agreement of the World Bank, and said term includes any schedules or annexes to such Framework.

(f) "IVA" means Independent Verification Agent to be selected by the World Bank, to undertake various verifications task under the Project.

(g) "Post Project Reports" mean the reports prepared and submitted to the World Bank not later than one (1) month after, respectively, the first and second anniversaries of the Closing Date presenting whether the outputs subsidized by the Grant are still functional and consistent with the Project's objectives.


(i) "Procurement Plan" means the Recipient’s procurement plan for the Project, dated August 2011 and referred to in paragraph 1.18 of the Procurement
Guidelines and paragraph 1.23 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

(j) "Project Implementation Manual" means the manual dated August 30, 2011, prepared by the Project Implementing Entity, satisfactory to the World Bank, setting forth the implementation rules and procedures for the Project as described in Section I of Schedule 2 to this Agreement.

(k) "Project Implementing Entity" means the National Water Supply and Drainage Board, established under the National Water Supply and Drainage Board Law, No. 2 of 1974.

(l) "Steering Committee" means the committee established in July 2009 and responsible for monitoring and coordinating the Project. The Steering Committee is chaired by the Secretary of the Ministry of Water Supply and Drainage and is composed of representatives from government ministries, local authorities and the National Water Supply and Drainage Board.

(m) "Subsidiary Grant Agreement" means the agreement between the Recipient and the Project Implementing Entity concerning the modalities for implementation of the Project, as described in Section I of Schedule 2 to this Agreement.

(n) "Subsidy" or "Subsidies" means the amount or amounts disbursed to the Recipient by the World Bank under this Agreement for onward transfer to the Project Implementing Entity for the satisfactory delivery of each output meeting the eligibility criteria as verified by the IVA.