February 5, 2013

Dr. P.B. Jayasundera
Secretary to the Treasury
Ministry of Finance and Planning
Colombo 1.

Democratic Socialist Republic of Sri Lanka: IDA Credit No 4702-LK
(Sustainable Tourism Development Project)
Amendment to Financing Agreement

Dear Sir:

We refer to the Financing Agreement dated November 8, 2010 entered into between the Democratic Republic of Sri Lanka (the Recipient) and the International Development Association (the Association) for the above-referenced Project. We refer also to your request dated August 15, 2012 for amendments to the Financing Agreement.

I am pleased to inform you that, after due consideration, the Association has agreed with your request and consequently proposes to amend the Financing Agreement as follows:

1. Schedule 1, Part 1 is amended to read in its entirety as follows:

“Part 1: Institutional Framework

(a) Establishment of sustainable training centers of excellence, including provision of technical assistance and equipment to SLITHM.

(b) Strengthening the capacity of SLITHM and MEDDT to enhance the quality of services in the tourism sector through the provision of technical assistance and training.

(c) Carrying out skills development and capacity building programs aimed at service providers in the tourism sector in order to enhance quality of their services.

(d) Establishment of product and service standards for the tourism sector.

(e) Promotion of such standards, including increasing compliance with such standards, through carrying out of public awareness campaigns, including, but not limited to, workshops.”
2. Schedule 1, Part 2 is deleted in its entirety.

3. Schedule 1, Part 3 is amended to read as follows:

"Part 3: Support to sustainable tourism business models

(a) Establishment of a matching grant facility.

(b) Provision of grants to eligible tourism businesses for: (i) product innovation; and (ii) green, energy and water efficient and environmentally friendly establishment."

4. Schedule 2 Section I, Part B (Implementation Arrangements) is amended by the addition thereto of a new Paragraph 5 as follows:

"5. The Recipient shall use a bank selected through a competitive process acceptable to the Association to administer the grants to be provided under Part 3 (b) of the Project (the Administrator Bank)."

5. The first paragraph of Schedule 2, Section I, Part C (Criteria and Terms and Conditions for Grants) is amended to read as follows:

"1. Under Part 3(b) of the Project, the Recipient shall provide Grants to Beneficiaries for: (a) product innovation; or (b) green, energy and water efficient and environmentally friendly establishment in accordance with the procedures laid down in the Project Implementation Manual including but not limited to the following:

(a) Grants for Product Innovation shall be provided to finance the carrying out of Eligible Product Innovation Subprojects and Grants for green, energy and water efficient and environmentally friendly establishment shall be provided to finance the carrying out of Eligible green, energy and water efficient and environmentally friendly establishment Subprojects.

(b) To be eligible to receive a Grant for Product Innovation or a Grant for green, energy and water efficient and environmentally friendly establishment, a Beneficiary shall be:

(i) a tourism establishment with legal personality, duly registered under the laws of the Recipient; or

(ii) a community run enterprise, with legal personality, duly registered with the SLTD; or

(iii) an association duly registered under the laws of the Recipient.

(c) To be eligible to receive a Grant for Product Innovation or a Grant for green, energy and water efficient and environmentally friendly establishment, a Subproject shall:
address a new market segment, including ecotourism, geotourism, or cultural tourism, or be for the upgrading of skills in the said market segments or for upgrading product and service standards in existing enterprises; and

have been received, appraised and approved by the Administrator Bank in accordance with the Project Implementation Manual.

Grants for Product Innovation and Grants for green, energy and water efficient and environmentally friendly establishment shall reimburse Beneficiaries up to 50% of the cost of goods, works and services incurred by said Beneficiaries under the Sub-project, and shall not exceed $76,000 in each case.

6. The table in Schedule 2, Section III, Part C, Paragraph 2 (Other Methods of Procurement of Consultants' Services) is amended to read as follows:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Quality-Based Selection</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Fixed Budget Selection</td>
</tr>
<tr>
<td>(d) Selection Based on Consultant's Qualifications</td>
</tr>
<tr>
<td>(e) Single-Source Selection</td>
</tr>
<tr>
<td>(f) Established commercial practices acceptable to the Association</td>
</tr>
<tr>
<td>(g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants;</td>
</tr>
<tr>
<td>(h) Single-source procedures for the Selection of Individual Consultants.</td>
</tr>
</tbody>
</table>

7. Attachment 1 to Schedule 2 is amended to read in its entirety as set out in Attachment 1 to this letter.

8. The table in Section IV of Schedule 2 is amended to read in its entirety as set out in Attachment 2 to this letter.

9. Paragraphs 8 and 9 of the Appendix are amended to read as follows:

"8. "Grants" means Grants for green, energy and water efficient and environmentally friendly establishment and Grants for Product Innovation both as hereinafter defined.

"9. "Grants for green, energy and water efficient and environmentally friendly establishment" means grants provided or to be provided under Part 3(b)(ii) of the Project, provided that, for the purpose of this definition: (i) "Green" shall mean the tourist establishment or entities that are preserving biodiversity or including ecological value addition and reducing the contribution of carbon to the air quality; (ii) "Energy efficiency" shall mean the tourist establishment or entities that are investing more than 20 percent of their total investment on
generating renewable energy or energy efficient design and equipment to reduce energy consumption level; (iii) "Water efficiency" shall mean that the tourist establishment or entities that are preserving water sources and installing water recycling plants to reduce waste water which includes rain water harvesting; and (iv) "Environmental friendly" shall mean that the tourist establishment or entities that are contributing to conserve biodiversity and cultural diversity with more than 25% of their investments, contributing to cleaner air by minimum of 10% of their investment and use of natural resources to be recovered through mitigation by investing minimum of 15% of their investment."

10. Unless the context otherwise requires, all references to "Carbon Reduction" throughout the Financing Agreement shall be deemed to be references to "green, energy and water efficient and environmentally friendly establishment".

Please indicate your agreement to these amendments by signing the form of countersignature below and returning one or original to us. Upon receipt of the countersigned original by us, this amendment shall come into force as of the date of this letter.

Sincerely,

INTERNATIONAL BANK DEVELOPMENT ASSOCIATION

Doina Petrescu
Acting Country Director for Sri Lanka and the Maldives

CONFIRMED
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By ____________________________
Authorized Representative

Name: MPDUK MAPA PATHIRANA
Title: Director General

Date: 21/02/2013

RJA 218423. WUI 64145 FAX (202) 477-6391
cc: Mr. Priyantha Mayadunne, Additional Secretary, Ministry of Economic Development
Mr. M.P.D.U.K. Mapa Pathrana, Director General, Department of External Resources, Ministry of Finance and Planning
Mr. Sunil Hettiarchichi, Director General, Investment and Tourism, Ministry of Economic Development
Ms. Saroja Sirisena, Director General, External Affairs, Ministry of Economic Development
Mr. A.B.M. Ashraf, Project Director/Facilitator, Ministry of Economic Development

Mr. Mukesh Nandan Prasad, Executive Director, The World Bank
### ATTACHMENT 1 TO SCHEDULE 2 - Project Performance Indicators

<table>
<thead>
<tr>
<th>Component</th>
<th>Intermediate Result</th>
<th>Results Indicator</th>
<th>Outcome Indicator</th>
</tr>
</thead>
</table>
| **Component 1** | Strengthening implementation and supervision at the regional level  
Training of human resources in the tourism industry in the East  
Niche markets in Eco Tourism, Ayurvedic activities, etc., strengthened  
Marketing and promotional strategy incorporating both national and regional products (i.e. East)  
Streamlining licensing and registration process  
Streamlining hotel grading process | Business model for regional SLTDA in the East  
Number of people trained  
Number of eco and community guides trained  
Regional & Eastern strategy  
Number of steps taken for licensing & registration  
Number of steps for grading hotels | Completed  
500  
25  
Completed  
50% reduction  
50% reduction |
| **Component 3** | Grant Facility  
Sustainable Product offerings increased  
Improved turnover of the MG recipient  
Increase in employment due to MG | Grant Manual  
Entrepreneurs engaged in the program  
Average Percentage increase in turnover for the Matching Grant recipients  
Number of new employment generated | Approved  
275  
25  
800 |
## ATTACHMENT 2

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works and consultants' services under Part 1 of the Project</td>
<td>902,200</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants' services under Part 3 (a) of the Project</td>
<td>64,500</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Grants under Part 3 (b) of the Project</td>
<td>10,311,100</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Incremental Operating Costs</td>
<td>322,200</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>11,600,000</strong></td>
<td></td>
</tr>
</tbody>
</table>