May 8, 2014

Dr P B Jayasundera
Secretary
Ministry of Finance and Planning
The Secretariat
Colombo 1

Dear Dr P B Jayasundera:

Re: North East Local Services Improvement Project (Credit No. 4728-LK)
(Amendment to the Financing Agreement)

We refer to the Financing Agreement dated November 8, 2010, between the International Development Association (the Association) and the Democratic Socialist Republic of Sri Lanka (the Recipient) for the North East Local Services Improvement Project (the “Financing Agreement”). We also refer to your letter dated December 27, 2013 requesting a restructuring of the Project.

Accordingly, we are pleased to inform that, after due consideration, the Association concurs with your request and proposes to amend the Financing Agreement as follows:

1. All references to the "Recipient" as used in the Financing Agreement to refer to implementation arrangement of the Project shall be replaced with the "Recipient, through MED".

2. The Project Description under Schedule 1 to the Financing Agreement is amended as follows:

   "The objective of the Project is to support Local Authorities in the Northern Province, the Eastern Province and the Adjoining Provinces to deliver services and local infrastructure in a responsive and accountable manner."

3. Part 2(d) of Schedule 1 to the Financing Agreement is amended as follows:

   "(d) Disseminating Project related information to stakeholders and strengthening demand-side approaches to local governance."

4. Sections I.A.1(c), (d) and (e) of Schedule 2 to the Financing are amended as follows:

   "(c) ensure coordination among the PCs, or such other agency as authorized under the laws of the Recipient, and the LAs;"
(d) maintain linkages with other agencies of the Recipient involved in local development, and ensure coordination and synergy with other development programs in the Northern Provinces, the Eastern Provinces, and the Adjoining Provinces;

(e) raise awareness regarding the Project among key stakeholders, including legislators and senior officials of the Recipient;

5. The period (".") at the end of item (f) under Section I.A.1 of Schedule 2 to the Financing Agreement is replaced with a semicolon (";"), and a new item (g) is added as follows:

"(g) carry out the effective and continuous monitoring of the Project."

6. A new Section 1.A.3 under Schedule 2 to the Financing Agreement is added as follows, and all the subsequent paragraphs are renumbered accordingly:

"3. To ensure the adequate representation and participation of the Provinces in the implementation of the Project, the Recipient through MED, shall ensure that the District Coordinating Committee meetings are held in each of the Provinces in accordance with the LAPIM and the PIP."

7. Section 1.B.3(a) of Schedule 2 to the Financing Agreement is renumbered and amended as follows, and the subsequent paragraphs are renumbered accordingly:

"4. The Recipient shall: (a) prepare and adopt, by August 31, 2010, an information disclosure policy for the Project acceptable to the Association;"

8. Section 1.C of Schedule 2 to the Financing Agreement is renumbered and amended as follows, and the subsequent paragraphs are renumbered accordingly:

"C. Implementation Agreements

7. For the purposes of oversight, coordination and facilitation of the Project at the provincial and local level, the participating PCs shall be Northern PC, the Eastern PC, the Adjoining Provinces PCs or other agencies as may be agreed in writing from time to time between the Recipient and the Association. The Recipient, through MED, shall enter into an agreement with each PC or such other agencies authorized in terms hereof, such agreement to provide, among other things, that:

(a) each PC or such other agency as authorized under the law of the Recipient, through the Commissioner of Local Government, shall be responsible for management and coordination of Project activities at the provincial level and shall maintain staff with skills, qualifications and experience, and in such sufficient numbers, as set out in the PIP and agreed with the Association;
(b) each PC or such other agency as authorized under the laws of the Recipient, shall review overall progress of the Project activities at the provincial and local level;

(c) each PC or such other agency as authorized under the laws of the Recipient, through the Assistant Commissioners of Local Government, shall facilitate the preparation of LA Development Plans and the identification, preparation and execution of Subprojects, and shall provide such other assistance as needed to the LAs.

(d) each PC shall or such other agency as authorized under the laws of the Recipient shall: (i) ensure that LA Development Plans and Subprojects are prepared and appraised in accordance with the criteria and procedures specified in the LAPIM; and (ii) facilitate the receipt of the proceeds of the Financing by each of the Participating LAs from the PCU in a timely manner in accordance with the relevant Grant Agreement.

(e) the PCs or such other agency as authorized under the laws of the Recipient shall take all necessary measures to ensure that the LAs carry out Subprojects in accordance with the Grant Agreements, the PIP, the LAPIM, the GAAP; and the ESMF, provided that in the event of any discrepancy between the PIP or the LAPIM and this Agreement, the provisions of this Agreement shall apply.

(f) the PCs or such other agency as authorized under the laws of the Recipient shall not, and shall ensure that the LAs do not, amend or waive any provision of the PIP, the LAPIM, the GAAP or the ESMF without the prior written consent of the Association.

8. In the event that a Provincial Council is not constituted or is dissolved in accordance with the Constitution of the Democratic Republic of Sri Lanka, the relevant Implementation Agreement shall be entered into between the Recipient and the MED or any agency agreed with the Association.

9. The Recipient shall exercise its rights under each Implementation Agreement in such a manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Implementation Agreement or any of its provisions.

10. Implementation Agreements for and on behalf of the Recipient shall be entered into by the Secretary of the Ministry of Economic Development or by an Officer duly authorized by the Secretary prior to the commencement of activities under Part 1 of the Project.”
9. Section 1.E.9 of Schedule 2 to the Financing Agreement is renumbered and amended as follows:

"12. The Recipient shall make each Grant under a Grant Agreement with the Covered LA on the terms and conditions specified in the LAPIM which shall include, but not be limited to the following:"

10. Renumbered Sections 1.E.12(c)(ii)(A),(F),(G) and (H) of Schedule 2 to the Financing Agreement as renumbered, are amended as follows:

"(A) carry out its Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the World Bank, including in accordance with the provisions of the Anti-Corruption Guidelines, the PIP, the LAPIM, the GAAP, and the Safeguards Instruments; provided that in the event of any discrepancy between any of the provisions of the PIP, the LAPIM, the Safeguards Instruments or the GAAP and those of this Agreement, the provisions of this Agreement shall apply;

(F) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, and in a manner adequate to reflect the operations, resources and expenditures related to the Subproject; and (2) at the Association’s, the relevant PC’s or such other agency as authorized under the laws of the Recipient, or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient, the relevant PC, and the Association;

(G) enable the Recipient, the relevant PC or such other agency as authorized under the laws of the Recipient, and the Association to inspect the Subproject, its operation and any relevant records and documents; and

(H) prepare and furnish to the Recipient, the relevant PC or such other agency as authorized under the laws of the Recipient, and the Association all such information as the Recipient, the relevant PC or such other agency as authorized under the laws of the Recipient, or the Association shall reasonably request relating to the foregoing."
11. A new paragraph G is added under Section 1 of Schedule 2 to the Financing Agreement, following the renumbering, to read as follows:

"G. Safeguards

15. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Safeguards Instruments.

16. Without limitation upon the provisions of the preceding paragraph, whenever an additional or revised Environmental Assessment, Environmental Management Plan, Social Impact Assessment, or Resettlement Action Plan shall be required for any proposed Project activity in accordance with the provisions of the Environmental and Social Management Framework, the Recipient shall, prior to the commencement of such activity, proceed to have such EA, EMP, SIA, or RAP (a) prepared in accordance with the provisions of the ESMF; (b) furnished to the World Bank for review and approval; and (c) thereafter adopted and disclosed as approved by the World Bank, in a manner acceptable to the World Bank.

17. Except as the World Bank shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate, waive, or permit to be assigned, amended, abrogated, or waived, any Safeguards Instrument, or any provision thereof.

18. Without limitation upon its other reporting obligations under Section II.A of this Agreement, the Recipient shall take all measures necessary to regularly collect and compile, and submit to the World Bank, as part of the Project Reports, information on the status of compliance with the Safeguards Instruments, providing details of:

(i) the measures taken in furtherance of the Safeguards Instruments;

(ii) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Safeguard Instruments; and

(iii) remedial measures taken or required to be taken to address such conditions.

19. In the event of a conflict between the provisions of any of the Safeguards Instruments and those of this Agreement, the provisions of this Agreement shall prevail.

20. The Recipient shall report to the World Bank in a timely manner any issues impacting or potentially impacting the implementation of the requirements of this section."
12. Section II.A.1 of Schedule 2 to the Financing Agreement is amended as follows:

“A. Project Reports

1. The Recipient, through MED, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators as set forth in the LAPIM agreed with the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.”

13. Section III.D of Schedule 2 to the Financing Agreement is amended as follows:

“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 contracts shall be subject to Post Review by the Association.”

14. The Table under Section IV.A.2 of Schedule 2 to the Financing Agreement is amended as follows:

<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, consultants’ services, Incremental Operating Costs and training and workshops</td>
<td>9,900,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Grants under Part 1 of the Project</td>
<td>23,097,178</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td>(3) Refund of Preparation Advance</td>
<td>2,822</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
</tr>
<tr>
<td>TOTAL</td>
<td>33,000,000</td>
<td></td>
</tr>
</tbody>
</table>

15. Annex 1 to Schedule 2 to the Financing Agreement is deleted in its entirety and Annex 2 is renumbered as Annex 1 and is amended. The renumbered Annex 1 is attached as an Appendix to this Amendment Letter.
16. The following definitions shall be revised and new definitions added to the Appendix in the relevant alphabetical order, to read as follows:

"Affected Persons" means persons who, on account of implementation of the Project, have experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person."

"Adjoining Provinces" means the provinces bordering Northern Provinces and Eastern Provinces in the territory of the Recipient, as described in the 13th Amendment of the Constitution of the Recipient, as agreed with the Association."


"Districts" means second level of administrative division in the territory of a province of the Recipient.”

"District Coordinating Committee” means each forum, chaired by a Senior Minister or the Member of Parliament, who represent the respective area, where all district level political and administrative authorities meet regularly to make decisions related to development activities within that district.”

"Environmental and Social Management Framework" and “ESMF” mean the framework dated January 29, 2010 and updated February 2014, prepared and publicly disclosed by the Recipient, and approved by the Association, which sets out, among other things: (i) key principles for social and environmental management of Subprojects; (ii) procedures to screen and process Subprojects for significant social and environmental impacts, and to assist in mitigating these impacts; (iii) procedures to ensure that these principles are properly applied; and (iv) guidelines for capacity building and monitoring, which have been incorporated into the PIP.

"Environmental Assessments” and “EAs” means each environmental assessment to be prepared by the Recipient in accordance with the ESMF, and pursuant to Section I.G.16 of Schedule 2 to this Agreement, each such assessment in form and substance satisfactory to the World Bank, and defining details of potential environmental risks and adverse impacts associated with the implementation of Project activities, as said assessments may be revised from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such assessments.”

"Environmental Management Plans” and “EMPs” means each plan to be prepared by the Recipient in accordance with the ESMF, and pursuant to Section 1.G.16 of Schedule 2 to this Agreement, each such plan in form and substance
satisfactory to the World Bank, and setting forth the measures for mitigating the environmental risks and impacts associated with the implementation of Project activities, as well as the administrative and monitoring arrangements for ensuring the implementation of said plans, as said plans may be revised from time to time with the prior written agreement of the world Bank, and such term includes any annexes or schedules to such plans.”

“Financial Management Manual” means the manual November 2, 2010, prepared and adopted by the Recipient and approved by the World Bank and to be followed by the Recipient pursuant to the provisions of Schedule 2, Section II, paragraph B.2(a) of this Agreement, containing among other things, the disbursement, financial reporting, internal audit and performance monitoring procedures for the project, as such manual may be revised with the prior written consent of the World Bank.

“PCs” means collectively, the provincial councils in the provinces participating in the Project, namely the Northern PC, the Eastern PC, the Adjoining Provinces PCs and any other PC agreed to in writing by the Recipient and the World Bank, and “PC” means either of them.”


“Procurement Plan” means the Recipient’s procurement plan for the Project and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

“Resettlement Action Plans” and “RAPS” means each plan to be prepared by the Recipient in accordance with the ESMF, and pursuant to Section 1.G.16 of Schedule 2 to this Agreement, each such plan in form and substance satisfactory to the World Bank, and setting forth the principles and procedures governing the acquisition of land and related assets, and the compensation, resettlement, and rehabilitation of Affected Persons, as said plans may be revised from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such plans.”

“Social Impact Assessment” or “SIA” means each social assessment to be prepared by the Recipient in accordance with the ESMF, and pursuant to Section 1.G.16 of Schedule 2 to this Agreement, each such assessment in form and substance satisfactory to the World Bank, and defining details of potential social impact of the planned Project activities on the provinces, as said assessment may be revised from time to time with the written prior written agreement of the World Bank, and such term includes any annexes or schedules to such assessment; and “Social Impact Assessments” and “SIAs” refers to two or more of such assessments.

“Safeguards Instruments” means, collectively, the ESMF, the EMPs, the SIAs, and the RAPs.”
All other terms of the Financing Agreement shall remain in full force and effect.

Please confirm your agreement to the foregoing by signing and dating the two originals, retaining one original for your records and returning the other original to the Association. Upon receipt by the Association of the original Amendment Letter countersigned by you, this Amendment Letter will become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Doina Petrescu
Acting Country Director for Sri Lanka and Maldives

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

Authorized Representative

Name: Priyantha Ratnayake
Title: Director General
Department of External Resources
Ministry of Finance and Planning
The Secretariat,
Colombo 01, Sri Lanka.

Date: 2014.05.19
National Competitive Bidding

In order to ensure economy, efficiency, transparency, and broad consistency with the provisions of the Procurement Guidelines; goods, works and non-consulting services procured under National Competitive Bidding (NCB) method shall be subject to the following requirements:

1. Only the model bidding documents for NCB agreed with the Association shall be used for bidding.

2. 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.

3. 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.

4. 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).

5. 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.

6. Bids will not be rejected merely on the basis of a comparison with an official estimate.

7. Except with the prior concurrence of the Association, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.

8. 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.

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