The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
1818 H Street N.W.
Washington, D.C. 20433
U.S.A.
(202) 477-1234
Cable Address: INTBAFRAD
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November 16, 2011

Dr. P.B. Jayasundara
Secretary
Ministry of Finance and Planning
Government of Sri Lanka
The Secretariat
Colombo 1, Sri Lanka

Re: Sri Lanka: AusAID Grant Agreement for
North East WASH Project - Grant No. TF010773

Dear Sir:

In response to the request for financial assistance made on behalf of Democratic Socialist Republic of Sri Lanka (the Recipient), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided by Government of Australia through the Australian Agency for International Development ("AusAID" or "Donor") under the Australian Trust Fund for AusAID-World Bank Partnership for South Asia (TF071677), proposes to extend to the Recipient a grant in an amount not to exceed two million and ten thousand United States Dollars (U.S.$ 2,010,000) ("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 from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor 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 the 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 Donor for the purposes of the Grant.

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; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Anna Wellenstein

Authorized Representative

Anna Wellenstein
Acting Country Director Sri Lanka and Maldives

AGREED:
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By: /s/ P. B. Jayasundera

Authorized Representative

Name Dr. P. B. Jayasundera

Title Secretary, Ministry of Finance and Planning, Sri Lanka

Date 29th of November, 2011.

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006.

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Article I
Standard Conditions; Definitions


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.

(a) "NWSDB" means National Water Supply and Drainage Board of the Ministry of Water Supply and Drainage -- the implementing agency of the AusAID grant. The Rural Water Supply Arm of the NWSDB is entrusted the responsibility of day to day implementation activities.

(b) "Subprojects" means the piped born water supply schemes in the identified villages.

(c) "Beneficiaries" means the recipients of the sanitation incentive grants, people provided access to safe water, and communities received training and capacity building technical assistance.

(d) "Subsidy" means the subsidy for the incentive grants for the construction of sanitation units by the identified beneficiaries of this component.

(e) "WUAs" means Water User Associations -- a community based group that will be formed for each of the piped water supply scheme with responsibility of operations and maintenance of the water supply schemes after construction of the system.

(f) "PS" means Pradeshiya Sabha -- the local government agencies in Sri Lanka.

(g) "O&M" means Operations and Maintenance.

(h) "ESMF" means Environment and Social Management Framework for the North East WASH project dated November 11, 2011 (including any amendments made from time to time that are satisfactory to the World Bank) that will: (i) enable the Recipient to assess, among other things, the Project’s environmental and social impacts, including those of any proposed Sub-Project; and (ii) where applicable, govern the preparation of environmental and social management plans and other appropriate mechanisms, satisfactory to the World Bank, required to mitigate and monitor any adverse impacts from carrying out the Project.
(i) "Sanitation Incentive Grants" means partial grants to be provided to the beneficiaries of sanitation component to build sanitation units.

(j) "Service Providers" means the agencies and organizations responsible to provide water and sanitation services to the rural communities.

(k) "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.


(n) "Operations Manual" means the Project Operation Manual, satisfactory and acceptable to the World Bank, setting forth various operational, financial, social, environmental, and procurement procedures governing the operation of the Project.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to increase accessibility to safe and sustainable pipe borne water supply and sanitation to complement post-conflict housing reconstruction interventions in a selected rural communities within two districts of the northern and eastern provinces, including piloting of viable mechanisms to strengthen institutional systems to deliver local level Water, Sanitation and Hygiene (WASH) services, eventually generating lessons and replicable models to contribute to the overall improvement of hygiene practices and to the overall quality of life of communities of returnees. The Project consists of the following parts:

Part A: Physical Infrastructure Investments: Providing clean and safe water to identified beneficiary communities of the North East Housing and Reconstruction Program (NEHRP) through the piped born community water supply systems designed by the NWSD; and (ii) construction of sanitation units by the beneficiary communities through the provision of incentive grants.

Part B: Strengthening of Local Agencies: (i) providing support to the National Water Supply and Drainage Board’s Rural Water and Sanitation (RWS) Unit and the Local Authorities (Pradeshiya Sabhas) for the implementation, of the project; and (ii) providing technical assistance and training to central and district RWS Units of NWSD, the participating Pradeshiya Sabhas (PSSs), and the Water User Associations (WUAs), to increase their implementation capacity; (iii) providing training to WUAs to allow them to assume their project management responsibilities and to encourage effective use and maintenance of completed systems; (iv) providing training in the
physical infrastructure works and creating awareness on sanitation and hygiene in the participating communities; and (v) organizing workshops and training for the respective communities throughout the duration of the project to transfer the knowledge on a routine basis, including specific workshops for women.

Part C: Program Management: Providing support to the National Water Supply and Drainage Board and the Local Authorities (Pradeshiya Sabhas) for the implementation of the project, including: provision of: (i) Information and Communication Technology equipment to NWSDB, PSs and the WUAs to enhance monitoring and evaluation; (ii) a Management Information System (MIS) appropriately designed for NWSDB, PSs and WUAs for monitoring and evaluation, operation and maintenance and to enable transfer of information; and (iii) a software to gather and process data for project management.

Part D: Documentation: carry out documentation of pilot experience and key lessons, as an integral part of the pilot project to ensure that it creates the foundation for future replication and scaling up, with necessary improvements.

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 National Water Supply and Drainage Board (NWSDB) of the Ministry of Water Supply and Drainage 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 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Institutional and Other Arrangements.

(a) the Recipient shall cause the Project Implementing Agency (NWSDB) to implement the project through the Rural Water Supply (RWS) Section of NWSDB and the regional RWS units of NWSDB in Mannar and Trincomalee Districts. NWSDB will be responsible for the design and supervision of the piped born water supply system, procurement of goods and consultants, and overall implementation and monitoring of the project activities and reporting requirements including financial management and audits, satisfactory to the Bank.

(b) the Recipient shall cause the Project Implementing Agency to prepare, adopt, and thereafter implement an Operations Manual, in a manner and substance satisfactory to the World Bank, which manual inter alia shall include the description of: (i) implementation arrangements; (ii) the procurement procedures and standard procurement documentation; (iii) reporting requirements, financial management and audit procedures; (iv) monitoring and evaluation arrangements; (v) criteria for the selection of communities and of sub-projects and terms and conditions of Incentive Grants and subsidies; and (vi) guidelines and procedures describing the environmental and social safeguards mitigation measures acceptable to the World Bank, as described in the Environment and Social Management Framework.

(c) the Recipient shall not assign, amend, abrogate or waive the Operations Manual or any provisions thereof if, in the opinion of the World Bank, such assignment, amendment, abrogation or waiver will materially and adversely affect the implementation of the Project. Any amendments to the said manual shall be made with the prior agreement of the World Bank. In
case of any conflict between the provisions of the Operations Manual and the provisions of this Agreement, the provisions of this Agreement shall govern.

(d) The Recipient shall cause the Project Implementing Agency to prepare and adopt the Environment and Social Management Framework (ESMF) for the Project, satisfactory to the World Bank, to enable the Recipient to assess, among other things, the Project’s environmental and social impacts, including those of any proposed sub-projects, and where applicable, govern the preparation of environmental and social management plans and other appropriate mechanisms, satisfactory to the World Bank, required to mitigate and monitor any adverse impacts from carrying out the Project.

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 Donors 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 and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five days after the end of the period covered by such report.

(b) The performance indicators referred to above in paragraph (a) consist of the following:

(i) The number and percentage (disaggregated by gender) of population in the project area that has access to piped borne water delivery point, within 200 meters of the place of residence, with the quality and quantity standards set by the project.

(ii) The number and percentage increase in the number of households that has access to latrines within their own compound.

(iii) Number and percentage of target villages achieving total sanitation coverage.

(iv) Number of Water Users Associations registered and active in the project area.

(v) Number of Pradeshiya Sabhas that are actively engaged in the overall implementation of Water Supply, as measured by the number of PSs that develop viable Water Supply and Sanitation (WS&S) plans (including monitoring systems) for their respective PSs.

(c) 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 not later than forty-five 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 the project 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 World Bank not later than six months after the end of such period.

2.07. **Procurement.**

(a) **General.** 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:

(i) 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;

(ii) 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

(iii) the provisions of this Section, 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”).

(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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods, Works and Non-consulting Services.**

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

1. Only the model bidding documents for NCB agreed with the Bank 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 Bank, 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; and

9. 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, works and non-consulting services for those contracts
specified in the Procurement Plan: (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 are specified in the Procurement Plan: (A) Selection under
a Fixed Budget; (B) Least Cost Selection; (C) Selection based on Consultants’ Qualifications; (D)
Single-source Selection of consulting firms; (E) Selection of Individual Consultants; and (F)
Single-source procedures for the Selection of Individual Consultants.
(e) **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.

### 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:

<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>(1) Goods, works, non-consulting services and consultants' services</td>
<td>1,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Incentive Grants</td>
<td>90,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training and Workshops</td>
<td>30,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Incremental Operating Costs</td>
<td>90,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>2,010,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this section the terms: (i) "Training and Workshops" means reasonable expenditures incurred by the Recipient for the carrying out of training and workshop activities, including expenditures for facilities rental, materials printing and photocopying, supplies, course fees, and travel and subsistence of trainees; and (ii) "Incremental Operating Costs" means reasonable expenditures directly related to the Project, incurred by the Recipient (which expenditures would not have been incurred absent the Project), namely expenditures for travel and transportation for monitoring and supervision purposes, operation of equipment, bank charges, consumables, and translations etc. and salaries of contractual and temporary staff, but excluding salaries, fees, honoraria, and bourses of members of the Recipient's civil service.
3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of countersignature of this Agreement by the Recipient.

(b) under Category (2) for incentive grants until the Operations Manual has been prepared and adopted by the Recipient in a manner satisfactory to the World Bank, as referred under paragraph 2.03(b) of the Annex to the Grant Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2014.

**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 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  
Telex: 94 11 2449823/94 11 2447633

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 1-202-477-6391  
Washington, D.C. 64145 (MCI)