October 4, 2017

The Secretary
Ministry of Finance
The Secretariat
Colombo 1, Sri Lanka

Excellency:

Re: IDA Credit No. 6006-LK
(Financial Sector Modernization Project)
Additional Instructions: Disbursement Letter

I refer to the Financing Agreement ("Agreement") between the Democratic Socialist Republic of Sri Lanka ("Recipient") and the International Development Association (the "Association") for the above-referenced project, dated October 2017. The Agreement provide that the Association may issue additional instructions regarding the withdrawal of the proceeds of IDA Credit 6006-LK ("Financing"). This letter ("Disbursement Letter"), as revised from time to time, constitutes the additional instructions.

The attached Disbursement Guidelines for Investment Project Financing, dated February 2017, ("Disbursement Guidelines") (Attachment 1), are an integral part of the Disbursement Letter. The manner in which the provisions in the Disbursement Guidelines apply to the Financing is specified below. Sections and subsections in parentheses below refer to the relevant sections and subsections in the Disbursement Guidelines and, unless otherwise defined in this letter, the capitalized terms used have the meanings ascribed to them in the Disbursement Guidelines.

I. Disbursement Arrangements

(i) Disbursement Methods (section 2). The following Disbursement Methods may be used under the Financing:

- Advance for categories 2(a), 2(b), 2(c) and 3
- Reimbursement
- Direct Payment for categories 2(a), 2(b), 2(c) and 3
- Special Commitment for categories 2(a), 2(b), 2(c) and 3

(ii) Disbursement Deadline Date (subsection 3.7). The Disbursement Deadline Date is 4 months after the Closing Date specified in the Agreement. Any changes to this date will be notified by the Association.
II. Withdrawal of Financing Proceeds

(i) Authorized Signatures (subsection 3.1).

Authorized signatory letters in the Form attached (Attachment 2) should be furnished to the World Bank at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Applications:

The World Bank
1st Floor, DFCC Building,
73/5, Galle Road,
Colombo 3, Sri Lanka.
Attention: Country Director, Sri Lanka

Separate authorized signatory letter is to be furnished for each Project Implementing Entity/Ministry, mentioning the related Project Implementing Entity/withdrawal table category details.

(ii) Applications (subsection 3.3). Please provide completed and signed applications for withdrawal, together with supporting documents, to the address indicated below:

The World Bank
No. 11, Taramani Main Road
Taramani, Chennai – 600 113
India
Attention: Team Lead, WFALA

(iii) Electronic Delivery (subsection 3.4) The World Bank may permit the Borrower to electronically deliver to the World Bank Applications (with supporting documents) through the World Bank’s Client Connection, web-based portal. The option to deliver Applications to the World Bank by electronic means may be effected if: (a) the Borrower has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Applications and to receive secure identification credentials (“SIDC”) from the World Bank for the purpose of delivering such Applications by electronic means; and (b) all such officials designated by the Borrower have registered as users of Client Connection. If the World Bank agrees, the World Bank will provide the Borrower with SIDC for the designated officials. Following which, the designated officials may deliver Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Borrower may continue to exercise the option of preparing and delivering Applications in paper form. The World Bank reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Applications by the Borrower.

(iv) Terms and Conditions of Use of SIDC to Process Applications (subsection 3.2). By designating officials to use SIDC and by choosing to deliver the Applications electronically, the Borrower confirms through the authorized signatory letter its agreement to: (a) abide by the
Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation ("Terms and Conditions of Use of Secure Identification Credentials") provided in Attachment [3]; and (b) to cause such officials to abide by those terms and conditions.

(v) Minimum Value of Applications (subsection 3.5). The minimum value for Reimbursement Direct Payment and Special Commitment applications is US$ 100,000.

(vi) Advances (sections 5 and 6).

- **Type of Designated Accounts (subsection 5.3):** Four segregated accounts
- **Currency of Designated Accounts (subsection 5.4):** USD
- **Financial Institution at which the Designated Accounts Will Be Opened (subsection 5.5):**

<table>
<thead>
<tr>
<th>Designated Account details</th>
<th>Currency of Designated Account</th>
<th>Financial Institution at which the Designated Account will be opened</th>
<th>Withdrawal schedule category related to the Designated Account</th>
<th>Entity operating the Designated Account</th>
</tr>
</thead>
<tbody>
<tr>
<td>DA-A</td>
<td>USD</td>
<td>Central Bank of Sri Lanka</td>
<td>2(a)</td>
<td>Project Implementing Entity at Central Bank of Sri Lanka (CBSL)</td>
</tr>
<tr>
<td>DA-B</td>
<td>USD</td>
<td>Central Bank of Sri Lanka</td>
<td>2(b)</td>
<td>Project Implementing Entity at Securities and Exchange Commission (SEC)</td>
</tr>
<tr>
<td>DA-C</td>
<td>USD</td>
<td>Central Bank of Sri Lanka</td>
<td>2(c)</td>
<td>Project Implementing Entity at Insurance Board of Sri Lanka (IBSL)</td>
</tr>
<tr>
<td>DA-D</td>
<td>USD</td>
<td>Central Bank of Sri Lanka</td>
<td>3</td>
<td>Central Project Coordination Unit at Ministry of Finance (MOF)</td>
</tr>
</tbody>
</table>
• Ceiling (subsection 6.1): Forecast of two quarters as provided in each Interim Unaudited Financial Report.

III. Reporting on Use of Financing Proceeds

(i) Supporting Documentation (section 4). Supporting documentation should be provided with each application for withdrawal as set out below:

- **For requests for reimbursement under category 1(a), 1(b), 1(c) and 1(d):**
  - Interim Unaudited Financial Report (attachment 4)
  - Statement relating to roll-over of Eligible Expenditure Program (EEP) and Disbursement Linked Indicators (DLI) amounts (Attachment 7)

- **For requests for reimbursement and for reporting eligible expenditures paid from the Designated Accounts under categories 2(a), 2(b), 2(c) and 3:**
  - Interim Unaudited Financial Report (attachment 5)
  - List of payments against contracts that are subject to the Association’s prior review in the form attached (Attachment 6)

- **For requests for Direct Payment under categories 2(a), 2(b), 2(c) and 3:** Records evidencing eligible expenditures, e.g. invoices.

(ii) Frequency of Reporting Eligible Expenditures Paid from the Designated Account (subsection 6.3): Quarterly.

(iii) Other Supporting Documentation Instructions: Copies of Bank statements for applications related to Designated Account.

IV. Other Disbursement Instructions

(i) For categories 1(a), 1(b), 1(c) and 1(d) of the table in Schedule 2 Section IV.A.2 of the Financing Agreement – EEP under Part I of the project, only reimbursement disbursement method is applicable. Association’s funds will be disbursed based on the lesser of (i) incurred and paid eligible expenditures reported in Interim Unaudited Financial Report and statement pertaining to roll-over of EEP and DLI amounts submitted by each PIE and MoNPaEA; and (ii) achievement of target DLI to the consolidated fund of the Recipient in case of category 1(a) of the table in Schedule 2 Section IV.A.2 of the Financing Agreement and to additional segregated bank accounts maintained in CBSL in the name of DST by the respective PIEs for categories 1(b), 1(c) and 1(d) of the table.
in Schedule 2 Section IV.A.2 of the Financing Agreement. These bank accounts are in addition to the Bank accounts mentioned under Part II.6 of this Disbursement letter and the name and signatories of these bank accounts would be as designated by the PIEs/MOF.

(ii) In case of categories 2(a), 2(b), 2(c) and 3 of the table in Schedule 2 Section IV.A.2 of the Financing Agreement, separate Interim Unaudited Financial Report is to be submitted by the Project Implementing Entities at CBSL, SEC and IBSL and the Central Project Coordination Unit at MOF by including advance and expenditures relating to the parts implemented by the respective PIE and MOF.

V. Other Important Information


From the Client Connection website, you will be able to prepare and deliver Applications, monitor the near real-time status of the Financing, and retrieve related policy, financial, and procurement information.

If you have not already done so, the World Bank recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). All Borrower officials authorized to sign and deliver Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the World Bank by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact Mr. Satish Kumar Shivakumar, Finance Officer at satishkumar1@worldbank.org.

Yours sincerely,

Country Director for Sri Lanka and the Maldives
Attachments:

1. *Disbursement Guidelines for Investment Project Financing dated February 2017*
2. Form for Authorized Signatures
4. Form of Interim Unaudited Financial Report for category 1(a), 1(b), 1(c) and 1(d)
5. Form of Interim Unaudited Financial Report for categories 2(a), 2(b), 2(c) and 3
6. List of payments against contracts subject to the Association’s prior review
7. Statement relating to roll-over of EEP and DLI amounts for category 1(a), 1(b), 1(c) and 1(d)
Attachment [2]

Form of Authorized Signatory Letter

[Letterhead]
Ministry of Finance
[Street address]

[DATE]

The World Bank
1st Floor, DFCC Building,
73/5, Galle Road,
Colombo 3, Sri Lanka.
Attention: Country Director, Sri Lanka

Re: IDA Financing No. 6006-LK (Financial Sector Modernization Project)

I refer to the Financing Agreement ("Agreement") between the Democratic Socialist Republic of Sri Lanka (the "Recipient") and the International Development Association (the "Association"), dated , providing the above Financing. For the purposes of Section 2.03 of the General Conditions as defined in the Agreement, any 1[one] of the persons whose authenticated specimen signatures appear below is authorized on behalf of the Recipient to sign applications for withdrawal [and applications for a special commitment] under this Financing.

For the purpose of delivering Applications to the Association, 2[each] of the persons whose authenticated specimen signatures appears below is authorized on behalf of the Recipient, acting 3[individually] 4[jointly], to deliver Applications, and evidence in support thereof on the terms and conditions specified by the Association.

5[This confirms that the Recipient is authorizing such persons to accept Secure Identification Credentials (SIDC) and to deliver the Applications and supporting documents to

1 Instruction to the Recipient: Stipulate if more than one person needs to sign Applications, and how many or which positions, and if any thresholds apply. Please delete this footnote in final letter that is sent to the Association.

2 Instruction to the Recipient: Stipulate if more than one person needs to jointly sign Applications, if so, please indicate the actual number. Please delete this footnote in final letter that is sent to the Association.

3 Instruction to the Recipient: Use this bracket if any one of the authorized persons may sign; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Association.

4 Instruction to the Recipient: Use this bracket only if several individuals must jointly sign each Application; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Association.
the Association by electronic means. In full recognition that the Association shall rely upon such representations and warranties, including without limitation, the representations and warranties contained in the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation ("Terms and Conditions of Use of SIDC"), the Recipient represents and warrants to the Association that it will cause such persons to abide by those terms and conditions.

This Authorization replaces and supersedes any Authorization currently in the Association records with respect to this Agreement.

[Name], [position] Specimen Signature: __________________________

[Name], [position] Specimen Signature: __________________________

[Name], [position] Specimen Signature: __________________________

Yours truly,

/ signed /

________________________

[Position]

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3 Instruction to the Recipient: Add this paragraph if the Recipient wishes to authorize the listed persons to accept Secure Identification Credentials and to deliver Applications by electronic means; if this is not applicable, please delete the paragraph. Please delete this footnote in final letter that is sent to the Association.
The World Bank (Bank)\(^6\) will provide secure identification credentials (SIDC) to permit the Borrower\(^7\) to deliver applications for withdrawal and applications for special commitments under the Agreement(s) and supporting documentation (such applications and supporting documentation together referred to in these Terms and Conditions of Use as Applications) to the Bank electronically, on the terms and conditions of use specified herein.

SIDC can be either: (a) hardware-based (Physical Token), or (b) software-based (Soft Token). The Bank reserves the right to determine which type of SIDC is most appropriate.

**A. Identification of Users.**

1. The Borrower will be required to identify in a completed Authorized Signatory Letter (ASL) duly delivered to and received by the Bank each person who will be authorized to deliver Applications. The Bank will provide SIDC to each person identified in the ASL (Signatory), as provided below. The Borrower shall also immediately notify the Bank if a Signatory is no longer authorized by the Borrower to act as a Signatory.

2. Each Signatory must register as a user on the Bank’s Client Connection (CC) website (https://clientconnection.worldbank.org) prior to receipt of his/her SIDC. Registration on CC will require that the Signatory establish a CC password (CC Password). The Signatory shall not reveal his/her CC Password to anyone or store or record the CC Password in written or other form. Upon registration as a CC user, the Signatory will be assigned a unique identifying account name.

**B. Initialization of SIDC.**

1. Prior to initialization of SIDC by a Signatory, the Signatory will acknowledge having read, understood and agreed to be bound by these Terms and Conditions of Use.

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\(^6\) "Bank" includes IBRD and IDA.

\(^7\) "Borrower" includes the borrower of an IBRD loan, IDA credit, or Project Preparation Facility advance and the recipient of a grant.
2. Where a Physical Token is to be used, promptly upon receipt of the Physical Token, the Signatory will access CC using his/her account name and CC Password and register his/her Physical Token and set a personal identification number (PIN) to be used in connection with the use of his/her Physical Token, after which the Physical Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Where a Soft Token is to be used, the Signatory will access CC using his/her account name and CC Password and set a personal identification number (PIN) to be used in connection with the use of his/her Soft Token, after which the Soft Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Upon initialization of the SIDC, the Signatory will be a “SIDC User”. The Bank will maintain in its database a user account (Account) for each SIDC User for purposes of managing the SIDC of the SIDC User. Neither the Borrower nor the SIDC User will have any access to the Account.

3. Prior to first use of the SIDC by the SIDC User, the Borrower shall ensure that the SIDC User has received training materials provided by the Bank in use of the SIDC.

C. Use of SIDC.

1. Use of the SIDC is strictly limited to use in the delivery of Applications by the SIDC User in the manner prescribed by the Bank in the Agreement(s) and these Terms and Conditions. Any other use of the SIDC is prohibited.

2. The Bank assumes no responsibility or liability whatsoever for any misuse of the SIDC by the SIDC User, other representatives of the Borrower, or third parties.

3. The Borrower undertakes to ensure, and represents and warrants to the Bank (such representation and warranty being expressly relied upon by the Bank in granting SIDC) that each SIDC User understands and will abide by, these Terms and Conditions of Use, including without limitation the following:

4. Security

4.1. The SIDC User shall not reveal his/her PIN to anyone or store or record the PIN in written or other form.

4.2. The SIDC User shall not allow anyone else to utilize his/her SIDC to deliver an Application to the Bank.

4.3. The SIDC User shall always logout from CC when not using the system. Failure to logout properly can create a route into the system that is unprotected.

4.4. If the SIDC User believes a third party has learned his/her PIN or has lost his/her Physical Token he/she shall immediately notify clientconnection@worldbank.org.
4.5. The Borrower shall immediately notify the Bank at clientconnection@worldbank.org of any lost, stolen or compromised SIDC, and take other reasonable steps to ensure such SIDC are disabled immediately.

5. Reservation of Right to Disable SIDC

5.1. The Borrower shall reserve the right to revoke the authorization of a SIDC User to use a SIDC for any reason.

5.2. The Bank reserves the right, in its sole discretion, to temporarily or permanently disable a SIDC, de-activate a SIDC User’s Account or both.

6. Care of Physical Tokens

6.1. Physical Tokens will remain the property of the Bank.

6.2. The Bank will physically deliver a Physical Token to each Signatory designated to receive one in a manner to be determined by and satisfactory to the Bank.

6.3. Physical Tokens contain delicate and sophisticated instrumentation and therefore should be handled with due care, and should not be immersed in liquids, exposed to extreme temperatures, crushed or bent. Also, Physical Tokens should be kept more than five (5) cm from devices that generate electromagnetic radiation (EMR), such as mobile phones, phone-enabled PDAs, smart phones and other similar devices. Physical Tokens should be carried and stored separate from any EMR device. At close range (less than 5 cm), these devices can output high levels of EMR that can interfere with the proper operation of electronic equipment, including the Physical Token.

6.4. Without derogating from these Terms and Conditions of Use, other technical instructions on the proper use and care of Physical Tokens are available at http://www.rsa.com.

7. Replacement

7.1. Lost, damaged, compromised (in terms of 4.5, above) or destroyed Physical Tokens will be replaced at the expense of the Borrower.

7.2. The Bank reserves the right, in its sole discretion, not to replace any Physical Token in the case of misuse, or not to reactivate a SIDC User’s Account.
Attachment [4]
# Payments Made during Reporting Period

## Against Contracts Subject to the Association's Prior Review

Payments made during the period from _________ to _________

<table>
<thead>
<tr>
<th>Date</th>
<th>Category</th>
<th>Sheet No.</th>
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</thead>
<tbody>
<tr>
<td></td>
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</table>

| Contract Number | Supplier | Contract Description/Date | Contract Amount | Date of WB's Non Objection to Contract | Amount Paid to Supplier during reporting period | WB's Share of Amt Paid to Supplier during reporting period | Amount paid to supplier during project period (cumulative) |
|-----------------|----------|---------------------------|-----------------|----------------------------------------|--------------------------------------------------|-------------------------------------------------------------|
|                  |          |                           |                 |                                        |                                                  |                                                             |

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Attachment 7 - Statement relating to roll-over of EEP and DLI amounts for category 1(a), 1(b), 1(c) and 1(d)

Reporting Period _____________ to ______________

<table>
<thead>
<tr>
<th>Reporting Period</th>
<th>Brought Forward Expenses paid (EEPs), but not disbursed by IDA in the absence of DLI achieved amount with period details</th>
<th>Brought Forward DLI achieved amount, but not disbursed by IDA in the absence of incurred expenses with DLI details</th>
<th>Expenses (EEPs) incurred and paid in the reporting period</th>
<th>DLI achieved amount pertaining to the reporting period with DLI details</th>
<th>Total Undisbursed Expenses for Disbursement Comparison (2+4)</th>
<th>Total Undisbursed DLI achieved amount for Disbursement Comparison (3+5)</th>
<th>Eligible for disbursement in respect of the reporting period, taking into consideration the rolled-over amount (Lower of 4 and 5)</th>
<th>Eligible for disbursement in the reporting period, taking into consideration the rolled-over amount (Lower of 6 and 7)</th>
<th>Excess of 6 over 9/ Carry Forward of Undisbursed Expenses (6-9)</th>
<th>Excess of 7 over 9/ Carry Forward of undisbursed DLI achieved amount (7-9)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
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</table>

Note. This statement is to be prepared separately for MoNPaeA, CBSL, SEC and IBSL.