Financing Agreement

(Skills Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 12, 2014
FINANCING AGREEMENT

AGREEMENT dated September 12, 2014, entered into between
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Recipient") and
INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient
and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement)
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 General Conditions or in
the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions
set forth or referred to in this Agreement, a credit in an amount equivalent to
sixty five million seven hundred thousand Special Drawing Rights (SDR
65,700,000) (variously and collectively, "Credit" and "Financing") comprised of
the following amounts to assist in financing the project described in Schedule 1
to this Agreement ("Project"): 

(a) an amount equivalent to fifty one million six hundred thousand Special
Drawing Rights (SDR 51,600,000) (the "Portion A of the Credit"); and

(b) an amount equivalent to fourteen million one hundred thousand special
Drawing Rights (SDR 14,100,000) (the "Portion B of the Credit").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with
Section IV of Schedule 2 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the
Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per
annum.
2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to the following:

(a) one and a quarter percent (1.25%) per annum with respect to Portion A of the Credit; and

(b) one and four tenths percent (1.4%) per annum with respect to Portion B of the Credit.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.08. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project, through its Ministry of Youth Affairs and Skills Development and the Project Implementing Agencies, in accordance with the provisions of Article IV of the General Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association 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 IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consists of the following:

(a) the Skills Sector Development Program has been modified or suspended so as to affect materially and adversely the ability of the Recipient to achieve the objectives of the Project; or
(b) a situation has arisen which shall make it improbable that the SSDP or a significant part of the core activities thereof, will be carried out.

ARTICLE V — TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.02. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its Secretary, Ministry of Finance and Planning.

6.02. The Recipient’s Address is:

Ministry of Finance and Planning
The Secretariat
Colombo 1, Sri Lanka

Tel: 94 1 2484 5100
Facsimile: 94 1 1244 7633

6.03. The Association’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: Telex: Facsimile:
INDEVAS 248423 (MCI) 1-202-477-6391
AGREED at Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By
Authorized Representative

Name: P. B. Jayasundera
Title: Secretary, Ministry of Finance and Planning

INTERNATIONAL DEVELOPMENT ASSOCIATION

By
Authorized Representative

Name: Francoise Clothier
Title: Country Director for Sri Lanka and Maldives
SCHEDULE 1

Project Description

The objective of the Project is to expand the supply of skilled and employable workers by increasing access to quality and labor market relevant training programs.

The Project consists of the following parts:

Part 1: Program Support to the Skills Sector Development Program

Provision of support for the implementation of the SSDP through the financing of Eligible Expenditure Programs.

Part 2: Innovation, Results Monitoring, and Capacity Building

Strengthening the implementation capacity of MYASD and the Project Implementing Agencies to carry out the SSDP, including through provision of support for: (a) monitoring and evaluation, coordination, communication, financial management, procurement, and safeguards compliance; (b) the design and implementation of policy reforms, including piloting and evaluating innovative approaches, and facilitation of dialogue between the public and private sector on skills development; and (c) training and technical advisory services.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall establish, by no later than three (3) months after the Effective Date, and maintain throughout the implementation of the Project, an Inter-Ministerial Sector Coordination Committee, with composition and terms of reference satisfactory to the Association. The Inter-Ministerial Sector Coordination Committee shall be responsible for reviewing the overall progress of the SSDP and providing policy direction and guidance relating to skills development policy.

2. The Recipient shall establish, by no later than three (3) months after the Effective Date, and maintain throughout the implementation of the Project, a Program Steering Committee, with composition and terms of reference satisfactory to the Association. The Program Steering Committee shall be responsible for overseeing the management of the Project, including review of Project progress, approval of annual work plans and budgets, decisions relating to policy and practice, and endorsement of DLI verification reports.

3. The Recipient shall maintain throughout the implementation of the Project a Skills Development Division within MYASD, under the direction of qualified management provided with sufficient resources, and staffed with competent personnel in adequate numbers including, among others, financial management, procurement, monitoring and evaluation, industry relations, employment-linked training agreement model implementation, communication, and support staff, in each case with qualifications, experience and under terms of reference acceptable to the Association. The SDD shall be responsible for support, coordination, and monitoring of the progress of the Project.

4. The Recipient shall, by no later than three (3) months after the Effective Date, finalize and adopt the SSDP, in form and substance satisfactory to the Association.

5. The Recipient shall establish and maintain, throughout the implementation of the Project, adequate internal audit arrangements for the Project acceptable to Association.
B. Implementation Arrangements

1. The Recipient shall, by no later than three (3) months after the Effective Date, prepare and adopt a Project Operational Manual, in form and substance satisfactory to the Association.

2. The Recipient shall, and shall cause MYASD, SDD and the PIAs to: (a) carry out the Project in accordance with the Project Operational Manual, and in a manner satisfactory to the Association; and (b) not amend, revise or waive, nor allow to be amended, revised, or waived, the provisions of said manual or any part thereof without the prior written agreement of the Association. In the event of any inconsistency between the Project Operational Manual and this Agreement, the provisions of this Agreement shall prevail.

C. Annual Work Plans and Budgets

The Recipient shall:

(a) throughout Project implementation, furnish to the Association for approval as soon as available, but in any case not later than October 31 of each year, the annual work plan and budget for Part 2 of the Project for each subsequent fiscal year; of such scope and detail as the Association shall have reasonably requested; and

(b) no later than two (2) months after furnishing each annual work plan and budget referred to in the preceding paragraph to the Association, finalize and adopt, and thereafter ensure that Part 2 of the Project is carried out in accordance with, such plan and budget as agreed in writing with the Association.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of Environmental Due Diligence Guidelines.

2. Except as the Association shall otherwise agree in writing, the Recipient shall not assign, amend, abrogate, waive, or permit to be assigned, amended, abrogated, or waived, the EDDG or any provision thereof.

3. 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 Association, as part of the Project Reports, information on the status of compliance with the EDDG providing details of:

(a) the measures taken in furtherance of the EDDG;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the EDDG; and

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

4. In the event of a conflict between the provisions of the EDDG and those of this Agreement, the provisions of this Agreement shall prevail.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient 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 the indicators set forth in the Project Operational Manual. The Recipient shall furnish to the Association: (a) a Project Report covering the period from January 1 to June 30 of each year; and (b) a Project Report covering the period from January 1 to December 31 of each year; in each case not later than forty-five (45) days after the end of the period covered by such report.

2. Without limiting the generality of the provisions of Part A.1 of this Section, the Recipient shall:

(a) where required, and by not later than the date specified, under the Project Operational Manual, engage a third party entity or entities for the purpose of verifying DLRs, with qualifications, experience, and terms of reference satisfactory to the Association, to undertake the verification process referred to in sub-paragraph (b) below;

(b) undertake, at least annually, a verification process, in a manner satisfactory to the Association, in accordance with the Project Operational Manual, and through, if applicable, the independent third party entity or entities engaged pursuant to sub-paragraph (a) above, to ascertain whether the DLRs have been achieved for the period under review; and

(c) furnish to the Association corresponding verification reports, in form and substance acceptable to the Association, by not later than August 15 of each year.
B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association: (a) not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for Part 1 of the Project covering the semester; and (b) not later than forty-five (45) days after the end of each quarter, interim unaudited financial reports for Part 2 of the Project covering the quarter; in each case in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Non-consulting Services. All goods and non-consulting services required for Part 2 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for Part 2 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association 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 and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional provisions set forth in the Attachment 1 to this Schedule 2; and (b) Shopping.

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants’ Qualifications; (e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (f) Selection of United Nations Agencies.

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 other contracts shall be subject to Post Review by the Association.

**Section IV. Withdrawal of the Proceeds of the Financing**

A. **General**

1. The Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures: (a) in accordance with the provisions of Article 11 of the General Conditions, this Section, and such additional instructions as the Association shall 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 Association and as made applicable to this Agreement pursuant to such instructions), and (b) with respect to Part 1 of the Project, on the basis of results (“Disbursement Linked Results” or “DLRs”) achieved by the Recipient, as measured against specific indicators (“Disbursement Linked Indicators”, or “DLIIs”) as described in Attachment 2 to this Schedule 2; all as set forth in the table in paragraph 2 below.
2. The following table specifies: (a) the categories of Eligible Expenditures (including, in the case of Part 1 of the Project, the applicable DIs and DLRs) that may be financed out of the proceeds of the Financing ("Category"); (b) the allocations of the amounts of the Financing to each Category; and (c) the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category (including DLRs)</th>
<th>Amount of Portion A of the Credit Allocated (expressed in SDR)</th>
<th>Amount of Portion B of the Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
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<tbody>
<tr>
<td>(1) Eligible Expenditure Programs under Part 1 of the Project, upon achievement the following DLRs:</td>
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<td>(a) DLR 1 in:</td>
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<tr>
<td>(i) Year 1</td>
<td>0</td>
<td>0</td>
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<tr>
<td>(ii) Year 2</td>
<td>1,560,000</td>
<td>0</td>
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<tr>
<td>(iii) Year 3</td>
<td>1,560,000</td>
<td>0</td>
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<tr>
<td>(iv) Year 4</td>
<td>1,560,000</td>
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<tr>
<td>(v) Year 5</td>
<td>1,560,000</td>
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<td>100%</td>
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<tr>
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<td>100%</td>
</tr>
<tr>
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<tr>
<td>(iii) Year 3</td>
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<tr>
<td>(iv) Year 4</td>
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<td>(v) Year 5</td>
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<td>(c) DLR 3 in:</td>
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<td>(iii) Year 3</td>
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<td>(iv) Year 4</td>
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<td>(d) DLR 4 in:</td>
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<td>(e) DLR 5 in:</td>
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<td>(ii) Year 2</td>
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<td>(iii) Year 3</td>
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<td>(f) DLR 6 in:</td>
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<td>(iii) Year 3</td>
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<td>1,560,000</td>
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<td>(i) DLR 9 in:</td>
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<tr>
<td>(i) Year 1</td>
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<tr>
<td>(ii) Year 2</td>
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<td>(iii) Year 3</td>
<td>1,560,000</td>
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<tr>
<td>(iv) Year 4</td>
<td>1,560,000</td>
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<tr>
<td>(v) Year 5</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants' services, Training and Workshops, and Incremental Operating Costs</td>
<td>120,000</td>
<td>4,740,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>51,600,000</td>
<td>14,100,000</td>
<td></td>
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</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:

   (a) prior to the date of this Agreement, except that withdrawals may be made for payments made prior to this date but on or after January 1, 2014, for Eligible Expenditures: (i) under Category (1) up to an aggregate amount not to exceed SDR 6,240,000, and (ii) under Category (2) up to an aggregate amount not to exceed SDR 390,000; and

   (b) under Category (1) unless and until the Recipient has furnished to the Association evidence, including the relevant verification report(s)
referred to in Section II.A.2(e) of this Schedule 2, as satisfactory to the Association that the respective DLR has been fully achieved.

2. Notwithstanding the provisions of Part B.1 of this Section, if the Association is not satisfied that any DLR has been fully achieved by the end of the fiscal year corresponding to said DLR, then the Association may, at any time, by notice to the Recipient, decide to: (a) other than with respect to DLR 2, authorize the withdrawal of all or a portion of the unwithdrawn proceeds of the Financing then allocated to said DLR, at such later date (prior to the Closing Date) if and when the Association shall be satisfied, on the basis of evidence acceptable to the Association, that such DLR has been fully achieved; (b) reallocate all or a portion of the proceeds of the Financing then allocated to such DLR to any other DLR(s); and/or (c) cancel all or a portion of the proceeds of the Financing then allocated to such DLR.

3. The Closing Date is December 31, 2019.
ATTACHMENT 1 TO SCHEDULE 2
Requirements Under National Competitive Bidding

In order to ensure economy, efficiency, transparency, and broad consistency with the provisions of the Procurement Guidelines; goods 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.
## ATTACHMENT 2 TO SCHEDULE 2

### Disbursement Linked Indicators and Disbursement Linked Results

<table>
<thead>
<tr>
<th>DLIs</th>
<th>DLRs for Year 1</th>
<th>DLRs for Year 2</th>
<th>DLRs for Year 3</th>
<th>DLRs for Year 4</th>
<th>DLRs for Year 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 1: Implementation of MYASD budget in line with the government’s SSDP and its medium term budgetary framework</td>
<td>DLR 1: N/A</td>
<td>DLR 1: (a) MoFP has ensured funding allocations for FY 2015 that are in line with SSDP; and (b) MYASD has spent at least 98% of its recurrent expenditure and 70% of its capital releases in accordance with the imprest request for January to December 2014</td>
<td>DLR 1: (a) MoFP has ensured funding allocations for FY 2016 that are in line with SSDP; and (b) MYASD has spent at least 98% of its recurrent expenditure and 75% of its capital releases in accordance with the imprest request for January to December 2015</td>
<td>DLR 1: (a) MoFP has ensured funding allocations for FY 2017 that are in line with SSDP; and (b) MYASD has spent at least 98% of its recurrent expenditure and 80% of its capital releases in accordance with the imprest request for January to December 2016</td>
<td>DLR 1: (a) MoFP has ensured funding allocations for FY 2018 that are in line with SSDP; and (b) MYASD has spent at least 98% of its recurrent expenditure and 85% of its capital releases in accordance with the imprest request for January to December 2017</td>
</tr>
<tr>
<td>DLI 2: Timely availability of reliable institution and agency-level data and periodical analysis of courses, centers and teacher performance</td>
<td>DLR 2: MYASD has: (a) developed a plan for strengthening monitoring and evaluation (“M&amp;E”) capacity; and (b) completed analysis of courses, centers, and teacher performance in at least VTA</td>
<td>DLR 2: MYASD has: (a) strengthened M&amp;E capacity in at least 2 PIAs in accordance with its M&amp;E plan; and (b) completed analysis of courses, centers, and teacher performance in at least VTA and NAITA</td>
<td>DLR 2: MYASD has: (a) strengthened M&amp;E capacity in at least 4 PIAs (cumulative) in accordance with its M&amp;E plan; and (b) completed analysis of courses, centers, and teacher performance in at least VTA, NAITA, DTET, and an</td>
<td>DLR 2: MYASD has: (a) fully developed and operationalized M&amp;E systems in at least 5 PIAs (cumulative), and has updated the M&amp;E system based on lessons learned; and (b) completed: (i) analysis of courses, centers, and teacher performance in TVET graduates</td>
<td></td>
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<tr>
<td>DLI 3: Introducing a performance based funding (&quot;PBF&quot;) model for public training providers</td>
<td>DLR 3:</td>
<td>DLR 3:</td>
<td>DLR 3:</td>
<td>DLR 3:</td>
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<tr>
<td>N/A</td>
<td>MYASD has: (a) developed and approved a PBF model; and (b) piloted the PBF model in at least 10 public training providers</td>
<td>MYASD has: (a) assessed the PBF pilot; (b) incorporated the results of the assessment into the PBF model; and (c) implemented the revised PBF model in at least 20 public training centers (cumulative)</td>
<td>MYASD has: (a) implemented the PBF pilot model in at least 40 public training centers (cumulative); and (b) made budgetary allocations to selected public training providers in line with their performance results</td>
<td>MYASD has: (a) implemented the pilot PBF in at least 80 public training centers (cumulative); and (b) made budgetary allocations to selected public training providers in line with their performance results</td>
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</tbody>
</table>

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<tr>
<th>DLI 4: Improving the relevance of training programs for students through increased participation by employers</th>
<th>DLR 4:</th>
<th>DLR 4:</th>
<th>DLR 4:</th>
<th>DLR 4:</th>
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<tbody>
<tr>
<td>MYASD has established industrial skills sector councils (&quot;ISSCs&quot;) in at least 1 priority sector as a pilot</td>
<td>MYASD has: (i) conducted evaluation of the ISSC pilot; and (ii) established an ISSC in at least 1 additional priority sector (2 cumulative) using lessons learned from pilot evaluation; and (b) ISSCs have: (i) completed skills gap analysis in at least 1 additional priority sector (3 cumulative); and (ii) validated competency</td>
<td>MYASD has: (a) established an ISSC in at least 1 additional priority sector (at least 4 cumulative); and (b) ISSCs have: (i) completed skills gap analysis in at least 1 additional priority sector (4 cumulative); and (ii) validated competency</td>
<td>(a) ISSCs have: (i) identified priority training needs; and (ii) validated competency standards and training packages that have been revised in at least 4 priority sectors (cumulative) in accordance with skills gaps analysis; and</td>
<td></td>
</tr>
</tbody>
</table>

<p>| Additional PIA | at least 5 PIA, and (ii) analysis of employment and earnings outcomes of technical and vocational education and training (&quot;TVET&quot;) graduates |
| DLI 5: Improving quality assurance mechanism | DLR 5: N/A | DLR 5: (a) MYASD has adopted revised quality management system (&quot;QMS&quot;) procedures; and (b) 5% of training providers of NVQ 1-6 have established revised QMS | DLR 5: 15% of training providers (cumulative) of NVQ 1-6 have established revised QMS | DLR 5: 30% of training providers (cumulative) of NVQ 1-6 have established revised QMS | DLR 5: 60% of training providers (cumulative) of NVQ 1-6 have established revised QMS |
| DLI 6: Increasing availability of effective teaching staff in priority areas | DLR 6: MYASD has finalized and approved the HR policy and professional development plan for all PIAs | DLR 6: MYASD has implemented: (a) new HR schemes including an allowance scheme in at least NAITA, VTA and 3 additional PIAs; and (b) an allowance scheme | DLR 6: MYASD has: (a) evaluated the implementation of new HR plan; and (b) at least NAITA, VTA and 3 additional PIAs filled 70% of needed teacher positions | DLR 6: At least NAITA, VTA and 3 additional PIAs have filled 90% of needed teacher positions |
| DLI 7: Skills upgrading of existing teaching staff in priority sectors | DLR 7: N/A | DLR 7: MYASD has: (a) prepared, adopted, and implemented a professional development plan in at least DTET, VTA and | DLR 7: MYASD has: (a) implemented the professional development plan in at least DTET, VTA and | DLR 7: MYASD has: (a) implemented the revised professional development plan in all |</p>
<table>
<thead>
<tr>
<th>DLR 8: Number of students benefiting from the employment-linked training agreement (&quot;ETA&quot;) model</th>
<th>DLR 8: MYASD has completed and adopted the design of ETA model</th>
<th>DLR 8: MYASD has implemented the revised ETA model, based on lessons learned from pilot, in at least two priority skills sectors to offer training opportunities to at least 500 individuals.</th>
<th>DLR 8: MYASD has implemented ETA in at least 3 priority skills sectors to offer training opportunities to at least additional 1000 (1500 cumulative) individuals targeting at least 40 percent job placement of graduates of pilot training</th>
<th>DLR 8: MYASD has implemented ETA in at least 4 priority skills sectors to offer training opportunities to at least additional 1000 (1500 cumulative) individuals and targeting at least 60 percent job placement of year 1, 2 and 3 graduates</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLR 9: Improving use and dissemination of aggregate skills sector information</td>
<td>DLR 9: N/A</td>
<td>DLR 9: TVEC has published an annual publication on skills demand and supply with</td>
<td>DLR 9: TVEC has published an annual publication on skills demand and supply with</td>
<td>DLR 9: N/A</td>
</tr>
<tr>
<td>plan in at least DTET, VTA and NAITA; and</td>
<td>(b) completed training of at least an additional 550 teachers (1,060 cumulative) and 250 assessors (500 cumulative) in priority sectors; and</td>
<td>(c) conducted an evaluation of the professional development plan</td>
<td>findings; (b) implemented the revised professional development plan in at least DTET, VTA and NAITA; and</td>
<td>(c) completed training of at least an additional 530 teachers (1,590 cumulative) and 250 assessors (750 cumulative) in priority sectors</td>
</tr>
<tr>
<td>TVET agencies; and</td>
<td>(b) completed training of at least an additional 530 teachers (2,120 cumulative) and 250 assessors (1,000 cumulative) in priority sectors</td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>
**SCHEDULE 3**

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>Commencing August 15, 2019 to and including February 15, 2029</td>
<td>1.65%</td>
</tr>
<tr>
<td>Commencing August 15, 2029 to and including February 15, 2039</td>
<td>3.35%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.

3. “CGITTI” means the Ceylon-German Technical Training Institute, an institute within MYASD responsible for training in the field of automobile engineering and allied trades; or any successor thereto.


5. “Disbursement Linked Indicator” or “DLI” mean an indicator, referred to in Section IV.A.1 and set forth in the table in Attachment 2 to Schedule 2 to this Agreement, on the basis of which a DLR is to be measured; and “Disbursement Linked Indicators” or “DLIs” means, collectively, more than one, or all said indicators (as the context may require).

6. “Disbursement Linked Result” or “DLR” mean a result, referred to in Section IV.A.1 and set forth in the table in Attachment 2 to Schedule 2 to this Agreement, on the basis of the achievement of which the amount of the Financing allocated to said result may be withdrawn in accordance with the provisions of said Section; and “Disbursement Linked Results” or “DLRs” means, collectively, more than one, or all said results (as the context may require).

7. “DTET” means the Department of Technical Education and Training, a department with MYASD responsible for technical education and training; or any successor thereto.

8. “EDDG” means the Recipient’s Environmental Due Diligence Guidelines, dated February 26, 2014, and acceptable to the Association, setting forth the environmental standards to be followed during the implementation of any physical interventions under the Project, as well as the administrative and monitoring arrangements for ensuring the implementation of said standards, as said document may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such document.
9. "Eligible Expenditure Programs" means the following expenditures under Part I of the Project:

(a) salaries and wages;
(b) overtime and holiday payment;
(c) other allowances;
(d) domestic travel;
(e) foreign travel;
(f) postal communication;
(g) electricity and water;
(h) personal emoluments of MYASD agencies (obtained from MYASD agencies);
(i) employment-linked training agreement model activities;
(j) teacher performance allowances of MYASD and the PIAs; and
(k) expenditures for industry sector skills councils (or industry working groups).

10. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

11. "Incremental Operating Costs" means the reasonable costs incurred MYASD and the PIAs for purposes of the management and supervision of the Project including costs of office utilities and supplies, communication, printing services, bank charges, advertising expenses, vehicle rental, operation and maintenance of vehicles, office equipment and facilities, travel, lodging and per diem expenses, but excluding salaries and allowances of the Recipient's civil servants or other regular government staff.

12. "Inter-Ministerial Sector Coordination Committee" means the committee established by the Recipient to review the overall progress of the SSDP and provide policy direction and guidance relating to skills development policy, and to be maintained as provided for in Section I.A.1 of Schedule 2 to this Agreement.


14. "Ministry of Youth Affairs and Skills Development" and "MYASD" mean the Recipient’s Ministry of Youth Affairs and Skills Development; or any successor thereto.

15. "NAITA" means the National Apprentice and Industrial Training Authority, a statutory body within MYASD responsible for apprentice and industrial training,
established and operating under the Tertiary and Vocational Education Act No. 20 of 1990; or any successor thereto.

16. "NIFNE" means the National Institute of Fisheries and Nautical Engineering, an institute responsible for training in fisheries and allied fields, established and operating under Parliamentary Act No. 36 and functioning under the purview of MYASD; or any successor thereto.

17. "NVQ 1-6" means the National Vocational Qualification Levels 1-6, covering certificate level (levels 1-4) and diploma level (levels 5-6), offered by technical and vocational education training institutions accredited by TVEC.

18. "NYSC" means the National Youth Services Council, a statutory body within MYASD responsible for youth development, and established and operating under the Volunteer National Youth Services Act No. 11 of 1967, as revised by Act No. 52 of 1968, and the Youth Services Council Act No. 69 of 1979; or any successor thereto.

19. "Portion A of the Credit" means the portion of the Credit referred to in Section 2.01(a) of this Agreement.

20. "Portion B of the Credit" means the portion of the Credit referred to in Section 2.01(b) of this Agreement.


22. "Procurement Plan" means the Recipient’s procurement plan for Part 2 of the Project, dated April 3, 2014 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.

23. "Program Steering Committee" means the committee established by the Recipient to oversee the management of the Project, and to be maintained as provided for in Section I.A.2 of Schedule 2 to this Agreement.

24. "Project Implementing Agencies" and "PIAs" mean, collectively, CGTTI, DTET, NAITA, NIFNE, NYSC, TVEC, UNIVOTEC, and VTA, and such other ministries or agencies of the Recipient as may be agreed upon from time to time by the Recipient and the Association.

25. "Project Operational Manual" means the Recipient’s manual, acceptable to the Association, setting forth the implementation plan, performance indicators, and DLR verification protocol of the Project, as said manual may be revised from
time to time with the prior written consent of the Association, and such term includes any annexes or schedules to such manual.

26. "Skills Development Division" or "SDD" means the division established by the Recipient within MYASD to coordinate and monitor NSDP activities, and to be maintained as provided for in Section I.A.3 of Schedule 2 to this Agreement, or any successor thereto.

27. "Skills Sector Development Program" and "SSDP" mean the Recipient’s national program for building an efficient skills development system to meet local and foreign labor market demand, as such program may be revised from time to time with the concurrence of the Association.

28. "Training and Workshops" means the reasonable costs of trainings, seminars, workshops, conferences and study tours, conducted in the territory of the Recipient and/or overseas, including: (a) the fees of training institutions and courses; (b) domestic and international travel costs, lodging costs, and subsistence/per diem allowances for both trainers and trainees; (c) the rental of training facilities; and (d) preparation, purchase or reproduction of training materials; but excluding salaries and allowances of the Recipient’s civil servants or other regular government staff.

29. "TVEC" means the Tertiary and Vocational Education Commission, a statutory body within MYASD, responsible for policy development, coordination and development of tertiary and vocational education and training, development of a nationally recognized system for granting tertiary education and vocational education awards, and maintenance of academic and training standards in technical and vocational education training institutions, established and operating under the Training and Vocational Education Act No. 20 of 1990; or any successor thereto.

30. "UNIVOTEC" means the University of Vocational Technology, a university providing technical and vocational education, established and operating under Parliamentary Act No. 31 of 2008, and functioning under the purview of MYASD; or any successor thereto.

31. "VTA" means the Vocational Training Authority, a statutory body within MYASD responsible for the delivery and management of vocational training for rural youth, established and operating under the Vocational Training Authority of Sri Lanka Act No. 12 of 1995; or any successor thereto.

32. "Year 1" means the period from January 1, 2014 to June 30, 2014.

33. "Year 2" means the period from July 1, 2014 to June 30, 2015.
34. "Year 3" means the period from July 1, 2015 to June 30, 2016.
35. "Year 4" means the period from July 1, 2016 to June 30, 2017.
36. "Year 5" means the period from July 1, 2017 to June 30, 2018.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.02 is modified to read as follows:

"Section 3.02. Service Charge and Interest Charge

(a) Service Charge. The Recipient shall pay the Association a service charge on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. The Service Charge shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Service Charges shall be computed on the basis of a 360-day year of twelve 30-day months.

(b) Interest Charge. The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest shall be computed on the basis of a 360-day year of twelve 30-day months."

2. Paragraph 16 of the Appendix ("Credit Account") is modified to read as follows: ""Credit Account" means any of the accounts opened by the Association in its books in the name of the Recipient to which an amount of the Credit is credited."

3. Paragraph 28 of the Appendix ("Financing Payment") is modified by inserting the words "the Interest Charge" between the words "the Service Charge" and "the Commitment Charge".

4. The Appendix is modified by inserting a new paragraph 32 with the following definition of "Interest Charge", and renumbering the remaining paragraphs accordingly:

"32. "Interest Charge" means the interest charge specified in the Financing Agreement for the purpose of Section 3.02(b)."

5. Renumbered paragraph 37 (originally paragraph 36) of the Appendix ("Payment Date") is modified by inserting the words "Interest Charges" between the words "Service Charges" and "Commitment Charges".

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6. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is modified by replacing the reference to Section 3.02 with Section 3.02 (a).