Financing Agreement

(Additional Financing for North East Local Services Improvement Project)
(NELSIP)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 9, 2015
FINANCING AGREEMENT

Agreement dated December 9, 2015, entered into between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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, in the Appendix to this Agreement, or in the Original Financing 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 fourteen million three hundred thousand Special Drawing Rights (SDR 14,300,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule I to this Agreement ("Project").

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Interest Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to one and a quarter percent (1.25%) per annum.
2.06. The Payment Dates are June 15 and December 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 objectives of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Provincial Councils and Local Government 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 — EFFECTIVENESS; TERMINATION

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

4.02. 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 V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient's Representative is its Secretary, Ministry of Finance.

5.02. The Recipient's Address is:

Ministry of Finance
The Secretariat
Colombo 1, Sri Lanka

Tel: 94 1 2484 5100
Facsimile: 94 1 1244 7633
5.03. 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
Washington, D.C.

AGREED at Colombo, Sri Lanka, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By

Authorized Representative

Name: Dr. R. H. S. Samaratunga
Title: Secretary, Ministry of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Rolande Pryce
Title: Acting Country Director for Sri Lanka & Maldives, World Bank
SCHEDULE 1

Project Description

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.

The Project consists of the Original Project.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall carry out the Project in accordance with the Implementation Arrangements set forth in Section I of Schedule 2 to the Original Financing Agreement.

2. Without limitation on the foregoing, the obligations of the Recipient, each PC and each LA set out in the Original Financing Agreement to carry out the Project in accordance with the ESMF shall be understood to refer to the ESMF as defined in the Appendix to this Agreement.

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient, through MPCRD, 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.

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 upon the provisions of Part A of this Section, the Recipient shall:

   (a) carry out the financial management of the Project in accordance with the Financial Management Manual and shall not amend, abrogate or waive such manual without the prior written consent of the Association; and

   (b) prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim
unaudited financial reports for the Project covering the quarter, 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 Works. All goods and works required for 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 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following methods, other than International Competitive Bidding, may be used for goods and works for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional procedures set out in the Annex to this Schedule; (b) Shopping; (c) Direct Contracting; (d) Community participation procedures which have been found acceptable to the Association; and (e) Force Account.
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 consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-Based Selection; (b) Least Cost Selection; (c) Selection under a Fixed Budget; (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; (f) Single-Source Selection of consulting firms; and (g) Single-source procedures for the Selection of Individual Consultants.

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.

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

A. **General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II 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), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
### Financing Allocated Expenditures to be Financed

<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>1,450,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Grants under Part 1 of the Project</td>
<td>12,850,000</td>
<td>100% of amounts disbursed</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>14,300,000</strong></td>
<td></td>
</tr>
</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 prior to the date of this Agreement.

2. The Closing Date is December 31, 2016.
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.
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 June 15 and December 15</td>
<td></td>
</tr>
<tr>
<td>Commencing December 15, 2020 to and including June 15, 2030</td>
<td>1.65%</td>
</tr>
<tr>
<td>Commencing December 15, 2030 to and including June 15, 2040</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

1. “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.


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


5. “Eastern PC” means the provincial council having jurisdiction over the Eastern Province as provided for in the 13th Amendment of the Constitution of the Recipient.

6. “Eastern Province” means the Eastern Province in the territory of the Recipient, as described in the 13th Amendment of the Constitution of the Recipient.

7. “ESMF” means the framework dated January 29, 2010, and revised as of February 28, 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.

8. “Financial Management Manual” means the manual, dated July 1, 2013, prepared and adopted by the Recipient and approved by the Association 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 Association.

9. “Fiscal Year” means the fiscal year of the Recipient and the LAs which runs concurrently with the calendar year.
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. "Grants" means grants provided or to be provided under Part I of the Project to Participating LAs as provided for in Schedule 2, Section I, Parts D and E in the Original Financing Agreement.

12. "Incremental Operating Costs" means incremental recurrent expenditures incurred by the Recipient on account of the Project for travel and subsistence expenses, office supplies, vehicle rental charges including insurance, vehicle operating charges including fuel and maintenance, maintenance of office equipment, telephone and other communications charges, office rent, bank charges, advertising costs, and salaries and contractual allowances of contracted staff, but excluding salaries of the Recipient’s civil servants.

13. "LA Project Implementation Manual" and "LAPIM" mean the manual dated September 30, 2009 adopted by the Recipient and approved by the Association; as such manual may be revised from time to time with the prior written consent of the Association.

14. "Local Authorities" and "LAs" mean the following local authorities which make up the third tier in the governance structure of the Recipient and fall under the administrative authority of PCs as set out in the 13th Amendment to the Recipient’s Constitution:

   (a) the Recipient’s Pradeshiya Sabhas, as defined in, and empowered by, the Recipient’s Pradeshiya Sabhas Act (No. 15 of 1987);

   (b) the Recipient’s Municipal Councils as defined in, and empowered by, the Recipient’s Municipal Council Ordinance and Amendment Act of 1987; and

   (c) the Recipient’s Urban Councils as defined in, and empowered, by the Recipient’s Urban Councils Ordinance and Amendments Act of 1987.

and "LA" means any one of such LAs”.


16. “Northern PC” means the provincial council having jurisdiction over the Northern Province as provided for in the 13th Amendment of the Constitution of the Recipient.
17. "Northern Province" means the Northern Province in the territory of the Recipient, as described in the 13th Amendment of the Constitution of the Recipient.

18. "Original Financing Agreement" means the financing agreement for a North East Local Services Improvement Project between the Recipient and the Association, dated November 8, 2010, as amended to the date of this Agreement (Credit No. 4728-LK).

19. "Original Project" means the Project described in the Original Financing Agreement.

20. "PCs" means collectively, the Northern PC and the Eastern PC, and "PC" means either of them.


22. "Procurement Plan" means the Recipient's procurement plan for the Project, dated February 17, 2010, as revised as of February 28, 2014 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

23. "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.

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 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".

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

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

4. 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".

5. 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).