Financing Agreement

(Financial Sector Modernization Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 04, 2017
FINANCING AGREEMENT

AGREEMENT dated October 04, 2017, 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 — CREDIT

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 fifty-five million four hundred thousand Special Drawing Rights (SDR 55,400,000) ("Credit"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").

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

2.03. The Front-end Fee payable by the Recipient shall be equal to one quarter of one percent (¼ of 1%) of the Credit amount.

2.04. The Commitment Charge payable by the Recipient shall be one-quarter of one percent (¼ of 1%) per annum on the Unwithdrawn Credit Balance.

2.05. The Interest Charge payable by the Recipient for each Interest Period shall be at a rate equal to three and thirty-six hundredth percent (3.36 %) per annum; provided, however, that the Interest Charge payable shall in no event be less than three quarters of one percent (¾ of 1%) per annum.

2.06. The Payment Dates are February 1 and August 1 in each year.
2.07. The principal amount of the Credit shall be repaid in accordance with the amortization 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, through the Central Project Coordination Unit shall carry out Components 1(b), 1(c), 1(e) and 3 of the Project, and cause: (a) Components 1(a) through (c) and 2(a) of the Project to be carried out by the Central Bank of Sri Lanka; (b) Components 1(a), 1(d) and 2(b) of the Project to be carried out by the Securities Exchange Commission; and (c) Components 1(a), 1(e) and 2(c) of the Project to be carried out by the Insurance Board of Sri Lanka, all in accordance with the provisions of Article IV of the General Conditions and the CBSL Project Agreement, the SEC Project Agreement and the IBSL Project Agreement, respectively.

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 Event of Suspension consists of the following:

(a) Any Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of such Project Implementing Entity to perform any of its obligations under the CBSL Project Agreement, SEC Project Agreement or the IBSL Project Agreement, as applicable.

4.02. The Additional Event of Acceleration consists of the following: The event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:
(a) The CBSL Subsidiary Agreement has been executed on behalf of the Recipient and the CBSL.

(b) The SEC Subsidiary Agreement has been executed on behalf of the Recipient and the SEC.

(c) The IBSL Subsidiary Agreement has been executed on behalf of the Recipient and the IBSL.

5.02. The Additional Legal Matter consists of the following:

(a) The CBSL Subsidiary Agreement has been duly authorized or ratified by the Recipient and the CBSL and is legally binding upon the Recipient and the CBSL in accordance with its terms.

(b) The SEC Subsidiary Agreement has been duly authorized or ratified by the Recipient and the SEC and is legally binding upon the Recipient and the SEC in accordance with its terms.

(c) The IBSL Subsidiary Agreement has been duly authorized or ratified by the Recipient and the IBSL and is legally binding upon the Recipient and the IBSL in accordance with its terms.

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

5.04 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.

6.02. The Recipient’s Address is:

Department of External Resources
The Secretariat
Colombo 1, Sri Lanka
Telephone: Facsimile:
94 11 2484693 94 11 2447633
94 11 2434876 94 11 2387153

6.03. The Association's Address is:

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

Telex: Facsimile:
248423 (MCI) 1-202-477-6391

AGREED at Colombo, Democratic Socialist Republic of 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. Samarathunga
Title: Secretary, Ministry of Finance and Mass Media

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Idah Z. Pواصل - Riddihough
Title: Country Director, Sri Lanka and Maldives
SCHEDULE 1

Project Description

The objective of the Project is to contribute to increasing financial market efficiency and use of financial services among micro, small and medium enterprises and individuals.

The Project consists of the following parts:

Component 1: Supporting Selected Mid-Level Reforms through Results-Based Financing

Provision of support to finance the Eligible Expenditure Program against achieving Disbursement Linked Results under the following activities/Disbursement Linked Indicators:

(a) DLI 1: Adoption of a consolidated risk-based approach to supervision of financial institutions.

(b) DLI 2: Establishment of the Financial Consumer Protection Authority across all financial services under an independent authority or an authority under CBSL.

(c) DLI 3: Establish an information system for holistic management of Employee Provident Fund's assets (investment) and liabilities (collections), and adopt a diversified investment strategy.

(d) DLI 4: Establishment of delivery versus payment (DvP) mode of settlement for corporate securities to minimize possible risks to financial stability.

(e) DLI 5: Restructuring of the National Insurance Trust Fund by separating the underwriting and reinsurance businesses.

Component 2: Strengthening Regulators’ Institutional Capacity, Upgrading the Legal and Regulatory Framework and Modernizing Financial Market Infrastructure

(a) Strengthening of the supervisory and regulatory capacity of the CBSL by supporting its core functions and developing market infrastructure, through provision of goods, non-consulting services, consulting services, Incremental Operating Costs and Training.

(b) Strengthening of the supervisory and regulatory capacity of the SEC by implementation of regulatory, infrastructure and capacity measures to fill the gaps identified in the Financial Sector Assessment Program, as well as development of the corporate bond market, through provision of goods, non-
consulting services, consulting services, Incremental Operating Costs and Training.

(c) Strengthening of the supervisory and regulatory capacity of the IBSL by enhancing the regulatory and supervisory framework and related information technology infrastructure, through provision of goods, non-consulting services, consulting services, Incremental Operating Costs and Training and Workshops.

Component 3: Project Implementation and Monitoring

Support to the Project Steering Committee and Central Project Coordination Unit to manage and coordinate technical operation, financial management, procurement, social and environmental issues as well as monitoring and evaluations under the Project, through provision of non-consulting services, consultants’ services, Incremental Operating Costs and Training and Workshops.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. (a) The Recipient shall ensure that, the Project Steering Committee shall be established within two (2) months after the Effective Date.

(b) The Recipient shall maintain the Project Steering Committee through the period of implementation of the Project to: (i) to ensure effective coordination and communication among the Project Implementing Entities and the Project Executing Agencies; (ii) provide overall policy guidance and support to the Project Implementing Entities and the Project Executing Agencies; and (iii) mobilize and ensure coordination with other relevant stakeholders.

2. The Recipient shall establish, within two (2) months after the Effective Date, and thereafter maintain the Central Project Coordination Unit, with adequate professional and administrative staff in numbers and with qualification and experience and under terms of reference satisfactory to the Association, and headed by a Project director, as such unit shall be required to, inter alia: (i) carry out day-to-day overall Project coordination including overall financial management and reporting; (ii) carry out quality control as well as facilitate and coordinate procurement activities; (iii) monitor and evaluate the Project's performance; and (iv) manage the Project-level grievance and complaints procedures pursuant to the Operations Manual.

B. Operations Manual

1. The Recipient shall, through the Central Project Coordination Unit, cause the Project Implementing Entities to: (a) adopt the Operations Manual, in form and substance satisfactory to the Association, within two (2) months after the Effective Date, or the first date on which the Verification Report shall be required under the Project, whichever is earlier; (b) carry out the Project in accordance with the Operations Manual; and (c) not amend, revise or waive nor allow to be amended, revised or waived, the provisions of the Operations Manual or any part thereof without the prior written agreement of the Association.

2. In the event of any inconsistency between the Operations Manual and this Agreement, the provisions of this Agreement shall prevail.
C.  Subsidiary Agreement

1.  (a)  To facilitate the carrying out of Components 1(a) through (c) and 2(a) of the Project, the Recipient shall make part of the proceeds of the Credit allocated from time to time to Categories (1)(b) and (2)(a) of the table set forth in Section IV.A.2 of this Schedule available to the CBSL under a subsidiary agreement between the Recipient and the CBSL, under terms and conditions approved by the Association (“CBSL Subsidiary Agreement”).

(b)  The Recipient shall exercise its rights under the CBSL Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the CBSL Subsidiary Agreement or any of its provisions.

(c)  The Recipient, through the Central Project Coordination Unit, shall promptly inform the Association, but in any case no later than three (3) months after being informed by the CBSL of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the CBSL of its obligations under the CBSL Project Agreement and under the CBSL Subsidiary Agreement.

(d)  The Recipient, through the Central Project Coordination Unit, shall facilitate exchanging of views between the CBSL and the Association in a timely manner with regard to the progress of the Project, the performance of its obligation under the CBSL Project Agreement and under the CBSL Subsidiary Agreement, and other matters relating to the purposes of the Credit.

2.  (a)  To facilitate the carrying out of Components 1(a), 1(d) and 2(b) of the Project, the Recipient shall make part of the proceeds of the Credit allocated from time to time to Categories (1)(c) and (2)(b) of the table set forth in Section IV.A.2 of this Schedule available to the SEC under a subsidiary agreement between the Recipient and the SEC, under terms and conditions approved by the Association (“SEC Subsidiary Agreement”).

(b)  The Recipient shall exercise its rights under the SEC Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the SEC Subsidiary Agreement or any of its provisions.

(c)  The Recipient, through the Central Project Coordination Unit, shall promptly inform the Association, but in any case no later than three (3) months after being informed by the SEC of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of
the Credit, or the performance by the SEC of its obligations under the SEC Project Agreement and under the SEC Subsidiary Agreement.

(d) The Recipient, through the Central Project Coordination Unit, shall facilitate exchanging of views between the SEC and the Association in a timely manner with regard to the progress of the Project, the performance of its obligation under the SEC Project Agreement and under the SEC Subsidiary Agreement, and other matters relating to the purposes of the Credit.

3. (a) To facilitate the carrying out of Component 1(a), 1(e) and 2(c) of the Project, the Recipient shall make part of the proceeds of the Credit allocated from time to time to Categories (1)(d) and (2)(c) of the table set forth in Section IV.A.2 of this Schedule available to the IBSL under a subsidiary agreement between the Recipient and the IBSL, under terms and conditions approved by the Association ("IBSL Subsidiary Agreement").

(b) The Recipient shall exercise its rights under the IBSL Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Credit. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the IBSL Subsidiary Agreement or any of its provisions.

(c) The Recipient, through the Central Project Coordination Unit, shall promptly inform the Association, but in any case no later than three (3) months after being informed by the IBSL of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by the IBSL of its obligations under the IBSL Project Agreement and under the IBSL Subsidiary Agreement.

(d) The Recipient, through the Central Project Coordination Unit, shall facilitate exchanging of views between the IBSL and the Association in a timely manner with regard to the progress of the Project, the performance of its obligation under the IBSL Project Agreement and under the IBSL Subsidiary Agreement, and other matters relating to the purposes of the Credit.

4. In the event of any inconsistency between any of the CBSL Subsidiary Agreement, the IBSL Subsidiary Agreement and/or the SEC Subsidiary Agreement, and this Agreement, the provisions of this Agreement shall prevail.

D. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
E. Annual Work Plans and Budget

The Recipient shall, through the Central Project Coordinating Unit, cause each of the Project Implementing Entities, throughout Project implementation, to furnish to the Association for approval as soon as available, but in any case not later than November 30 of each year, an annual work plan and budget for the activities under Component 2 of the Project for each subsequent fiscal year, of such scope and detail as the Association shall have reasonably requested, except for the annual work plan and budget for the first fiscal year which shall be furnished prior to the commencement of the relevant activities under Component 2 of the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall, through the Central Project Coordinating Unit, 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 Operations Manual, acceptable to the Association. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than one month 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) with respect to DLR 4.3, and by not later than the date specified in the Operations Manual, engage a third party entity or entities for the purpose of verifying said DLR 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 a verification process, in a manner satisfactory to the Association, in accordance with the Operations Manual, and through, with respect to DLR 4.3, the independent third party entity or entities engaged pursuant to sub-paragraph (a) above, to ascertain whether said DLR has been achieved; and

   (c) furnish to the Association corresponding verification reports, in form and substance acceptable to the Association, prior to submission of any withdrawal application under Category (1) of the table in Section IV.A.2 of Schedule 2 to this Agreement.
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, through the Central Project Coordinating Unit, shall prepare and cause the Project Implementing Entities to prepare and furnish to the Association 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, through the Central Project Coordinating Unit, shall have and cause the Project Implementing Entities to have their 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.

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**Section III. Procurement**

**A. General**

1. **Goods and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Credit 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 Credit 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.

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**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 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) Selection of UN Agency; and (f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines 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 other contracts shall be subject to Post Review by the Association.

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

A. **General**

1. The Recipient may withdraw the proceeds of the Credit 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 “Disbursement Guidelines for Investment Project Financing” dated February 2017, 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 Credit (“Category”), the allocations of the amounts of the Credit 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 Credit Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Eligible Expenditure Program (“EEP”) under Component 1 of the Project:</td>
<td></td>
<td>100% up to the respective DLR Values</td>
</tr>
<tr>
<td>(a) MoNP&amp;EA</td>
<td>5,166,667</td>
<td></td>
</tr>
<tr>
<td>(b) CBSL</td>
<td>3,750,000</td>
<td></td>
</tr>
<tr>
<td>(c) SEC</td>
<td>1,475,000</td>
<td></td>
</tr>
<tr>
<td>(d) IBSL</td>
<td>708,333</td>
<td></td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants' services, Incremental Operating Costs and Training and Workshops:</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>(a) under Component 2(a) of the Project</td>
<td>22,900,000</td>
<td></td>
</tr>
<tr>
<td>(b) under Component 2(b) of the Project</td>
<td>14,050,000</td>
<td></td>
</tr>
<tr>
<td>(c) under Component 2(c) of the Project</td>
<td>6,650,000</td>
<td></td>
</tr>
<tr>
<td>(3) Non-consulting services, consultants' services, Incremental Operating costs and Training and Workshops</td>
<td>561,500</td>
<td>100%</td>
</tr>
</tbody>
</table>
under Component 3 of the Project

<table>
<thead>
<tr>
<th>(4) Front-end Fee</th>
<th>138,500</th>
<th>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 3.01 (a) of the General Conditions</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL AMOUNT</td>
<td>55,400,000</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:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed SDR 4,580,000, SDR 2,810,000 and SDR 1,330,000 may be made for payments made prior to this date but on or after May 1, 2016, for Eligible Expenditures under Categories (2)(a), (2)(b) and (2)(c) respectively; or

   (b) under Categories (1)(a), (1)(b), (1)(c) and (1)(d) unless and until the Recipient has furnished to the Association evidence, including the relevant Verification Report(s) in form and substance satisfactory to the Association that the DLR with respect to which withdrawal has been requested has been fully achieved.

2. Notwithstanding the provisions of Part B.1 of this Section:

   (a) if, with respect to any DLR, the Association is not satisfied that such DLR has been fully achieved by the end of the DLR Period corresponding to such DLR in the table in Attachment 2 to this Schedule 2, then the Association may, at any time, by notice to the Recipient or any of the relevant Project Implementing Entities, decide to: (i) authorize the withdrawal of all or a portion of the unwithdrawn proceeds of the Credit then allocated to such 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; (ii) reallocate all or a portion of the proceeds of the Credit then allocated to such DLR to any other DLR(s); and/or (iii) cancel all or a portion of the proceeds of the Credit then allocated to such DLR;
b) with respect to the DLR Period current at the time of any withdrawal, in the event that a DLR for a subsequent DLR Period has been fully achieved in such current DLR Period, the Association, may at any time, by notice to the Recipient, decide to authorize withdrawal of EEPs incurred in such current DLR Period of up to the DLR Value of the subsequent DLR Period achieved during such current DLR Period, and the DLR Value in the subsequent DLR Period shall be correspondingly reduced; and

c) if, at any time, the Association determines that any amounts of the Financing were withdrawn without evidence of actual spending by the Recipient under the EEP or without evidence of satisfaction of other criteria set forth in this Agreement, the Recipient shall refund any such amounts to the Association as the Association shall specify by notice to the Recipient.

3. Notwithstanding the provisions of Parts B.1 and B.2 of this Section, withdrawals under Categories (1)(a), (1)(b), (1)(c) and (1)(d) shall not exceed the lesser of: (a) the total of the DLR Values allocated to each DLR achieved; and (b) the amount of the EEPs incurred but not paid by the proceeds of the Credit as of the time when payment is requested.

4. The Closing Date is December 31, 2022.
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-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 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>Disbursement Linked Indicators</th>
<th>Responsible Institutions</th>
<th>Total Amount for DLI (in SDR)</th>
<th>DLR for Year 1 (Date of the Financing Agreement – December 2017) (Amount in SDR)</th>
<th>DLR for Year 2 (January – December 2018) (Amount in SDR)</th>
<th>DLR for Year 3 (January – December 2019) (Amount in SDR)</th>
<th>DLR for Year 4 (January – December 2020) (Amount in SDR)</th>
<th>DLR for Year 5 (January 2021 – Closing Date) (Amount in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DLR 1: Adoption of consolidated, risk-based approach to supervision of financial institutions.</strong></td>
<td>DLR 1.1-1.3: CBSL DLR 1.1 and 1.2: SEC DLR 1.1 and 1.2: IRS</td>
<td>3 million</td>
<td>DLR 1.1: The FSOC agrees through the MoU that CBSL will be the lead consolidated supervisor</td>
<td>DLR 1.2: Implementation of the MoU evidenced by a minimum of four (4) meetings (from four quarterly sessions in one (1) year) of the FSOC, confirmed by the chairman of FSOC</td>
<td>DLR 1.3: Based on the MoU, CBSL produces two (2) consolidated risk-based supervision reports for identified financial groups for FSOC meeting, confirmed by the chairman of FSOC</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>DLR 1: DLR Allocations by Institutions</strong></td>
<td>CBSL – 0.375 mil. SEC – 0.1875 mil. IRS – 0.1875 mil.</td>
<td>Maximum CBSL – 0.375 mil. SEC – 0.1875 mil. IRS – 0.1875 mil. Based on the following rule: Two (2) consolidated risk-based supervision reports are produced – 100%; Three (3) quarterly meetings held in the year – 100%; Two (2) quarterly meetings held in the year – 75%;</td>
<td></td>
<td></td>
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</tbody>
</table>

1. The word "institutions" is repeated in the table, which is likely a typographical error. It should be replaced with a more specific term, such as "financial institutions."
<table>
<thead>
<tr>
<th>DLR 2: Establishment of the Financial Consumer Protection Authority across all financial services under an independent authority or an authority under CBSL.</th>
<th>2 quarterly meetings held in the year – 50%; and 2 quarterly meetings held in the year – 25%</th>
<th>1 consolidated risk-based supervision report is produced – 50%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DLR 2: DLR Allocations by Institutions</strong></td>
<td></td>
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</tr>
<tr>
<td>DLR 3: Establish an information system for holistic management of EPF’s assets (investment) and liabilities (collections), and adopt a diversified investment strategy.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*In the event CBSL is not the FCPA, the funds allocated to DLR 2.2 will be reallocated in consultation between the Association and the Recipient.*
requesting approval to bring the management of EPF's collections (liabilities) and investments (assets) into common information management system under CBSL, and such a request is approved by the cabinet reach adequate replacement income for retirees

<table>
<thead>
<tr>
<th>DLR 3: DLR Allocations by Institutions</th>
<th>[MoNP&amp;EIA – 1.5 mil.]</th>
<th>[CBSL – 0.75 mil.]</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLR 4: Establishment of DvP mode of settlement for corporate securities to minimize possible risks to financial stability.</td>
<td>DLR 4.1: SEC DLR 4.2: SEC DLR 4.3: SEC</td>
<td>DLR 4.1: SEC &amp; CSE adopt rules and regulations necessary to enable the settlement of the corporate equity segment on DvP basis 1.1 mil.</td>
</tr>
<tr>
<td>DLR 4: DLR Allocations by Institutions</td>
<td>[SEC – 0.366666 mil.]</td>
<td>[SEC – 0.366666 mil.]</td>
</tr>
</tbody>
</table>
| DLR 5: Restructuring of the NITF by separating the underwriting and reinsurance businesses. |  | DLR 5.1: NITF*  
DLR 5.2: IBSL  
DLR 5.3: MoNP&EA  
2.5 mil.  
DLR 5.1: NITF Board issues decision to restructure NITF by separating the underwriting and reinsurance businesses  
DLR 5.2: IBSL issues no objection to the separation  
DLR 5.3: MoNP&EA submits cabinet memorandum, requesting to approve the proposed restructuring of NITF, and such a request is approved by the cabinet |  |

| DLR 5: DLR Allocations by Institutions |  |  |

|  |  | (MoNP&EA - 0.666667 mil.)  
(IBSL - 0.333333 mil.)  
(MoNP&EA - 1.5 mil.) |  |

---

**NITF** is a fully-owned state enterprise under the MoNP&EA
### SCHEDULE 3

**Amortization 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 1 and August 1</td>
<td>2.5%</td>
</tr>
<tr>
<td>commencing on August 1, 2022 to and including February 1, 2031</td>
<td>2.5%</td>
</tr>
<tr>
<td>and on August 1, 2031, to and ending on February 1, 2041</td>
<td>2.75%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid.
APPENDIX

Section I. Definitions


2. “CBSL Project Agreement” means the agreement between the Association and the CBSL relating to the implementation of Components 1(a) through (c) and 2(a) of the Project, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the CBSL Project Agreement.

3. “CBSL Subsidiary Agreement” means the agreement referred to in Section I.C of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Credit available to the Project Implementing Entity.

4. “CSE” means the Colombo Stock Exchange, established in 1985 pursuant to the Recipient’s Companies Act (No. 17 of 1982), or any successor thereto.

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

6. “Central Bank of Sri Lanka” or the acronym “CBSL” means the Monetary Board of the Central Bank of Sri Lanka, established through the Monetary Law Act (No. 58 of 1949), or any successor thereto, and is one of the three Project Implementing Entities under the Project.

7. “Central Project Coordination Unit” or the acronym “CPCU” means a unit to be established within MoF, and to be maintained as provided for in Section I.A.2 of Schedule 2 to this Agreement.


9. “DLR Period” means the calendar year specified in the table in Attachment 2 to Schedule 2 of this Agreement, during which a DLR is set to be achieved.

10. “DLR Value” means an amount of the Credit allocated to each DLR and set forth in the table in the Attachment 1 to Schedule 2 to this Agreement, which may be withdrawn by the Recipient following the achievement of the respective DLR in accordance with the requirements of this Agreement and each of the Project Agreements, as applicable.
11. "DvP" means the delivery versus payment, a settlement system that stipulates that cash payment must be made prior to or simultaneously with the delivery of the security.

12. "Disbursement Linked Indicator" or the acronym "DLI" means an indicator 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).

13. "Disbursement Linked Result" or the acronym "DLR" means a result, referred to in the table in Attachment 2 to Schedule 2 to this Agreement; and "Disbursement Linked Results" or "DLRs" means, collectively, more than one, or all said results (as the context may require).

14. "Eligible Expenditure Program" or the acronym "EEP" means the eligible expenditure program under Component I of the Project, specified in the Operations Manual, whose budget or general ledger code numbers for such expenditure items may be changed from time to time:

(a) for Category 1 (a) (MoNP&EA) (Budget Head 104): (i) salaries and wages (1001); (ii) overtime and holiday payment (1002); (iii) other allowances (1003); (iv) domestic travel (1101); (v) foreign travel (1102); (vi) postal and communication (1402); (vii) electricity and water (1403)

(b) for Category 1 (b) (CBSL): (i) salaries and wages (General Ledger Code: 80001-80003); (ii) overtime (GL Code: 80201, 80301); (iii) holiday payment (GL Code: 80801-80803, 81001, 81002); (iv) other allowances (GL Code: 80401-80405); (v) domestic travel (GL Code: 86517); (vi) foreign travel (GL Code: 86512); (vii) postal communication (GL Code: 86502); (viii) electricity and water (GL Code: 84010, 84011, 84013)

(c) for Category 1 (c) (SEC): (i) salaries and wages (GL Code: 330000, 330200, 331000, 335700, 334600); (ii) overtime and holiday payment (GL Code: 334500, 335600, 334800); (iii) other allowances (GL Code: 336000, 336200, 349000, 349100, 335500, 334700, 333500, 334000); (iv) domestic travel (GL Code: 340700, 346500); (v) foreign travel (GL Code: 337000, 337100); (vi) postal communication (GL Code: 365000, 365500); (vii) electricity and water (GL Code: 341600) and

(d) for Category 1 (d) (IBSL): (i) media notices (GL Code: PE 3454); (ii) telephone costs (GL Code: PE 3440); (iii) international association of insurance supervisor (IAIS) annual subscription (GL Code: PE 3618); (iv) foreign travel (GL Code: PE 3370); and (v) salaries (GL Code: PE 3303).
15. "Employee Provident Fund" or the acronym "EPF" means the social security scheme of the Recipient managed by the CBSL, established under the Employees' Provident Fund Act (No. 15 of 1958). Operational Manual for Sub-grants to PGs and/or POs “FY” means the fiscal year of the Recipient, from January 1 to December 31.

16. “FSAP” means the Financial Sector Assessment Program Development Module, submitted by the Association to the Recipient on December 15, 2015, setting out policy recommendations for financial sector development, some of which were reflected in the Recipient’s national budget in FY 2016 and 2017.

17. “Financial Consumer Protection Authority” means the financial consumer protection authority to be established under Component 1(b) of the Project.

18. “FSOC” means the Financial Sector Oversight Committee reconstituted in 2015 from the IRIC, to emphasize its financial system oversight role, consisting of all financial sector primary regulators with the objective of ensuring appropriate policy directions for the orderly development of the financial sector and strengthening financial system stability.

19. “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.

20. “IBSL Project Agreement” means agreement between the Association and the IBSL relating to the implementation of Components 1(a), 1(e) and 2(c) of the Project, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the IBSL Project Agreement.

21. “IBSL Subsidiary Agreement” means the agreement referred to in Section I.C of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Credit available to the Project Implementing Entity.

22. “IRIC” means the Inter Regulatory Institutions Council, originally formed in 2007, and reconstituted as the FSOC in 2015.

23. “Incremental Operating Costs” means the reasonable costs incurred by the Recipient for purposes of the day-to-day implementation of the Project including maintenance of vehicles and equipment, fuel, office supplies, utilities, consumables, office rental and maintenance, bank charges, advertising expenses, travel of staff (including per diems, accommodation) and salaries of selected contracted support staff, but excluding salaries, salary top-ups of the Recipient’s civil servants and Eligible Expenditures claimed under Categories (1)(a), (1)(b), (1)(c) and (1)(d).
24. “Insurance Board of Sri Lanka” or the acronym “IBSL” means the Insurance Board of Sri Lanka, established through the Regulation of Insurance Industry Act of the Recipient (No. 43 of 2000), or any successor thereto, and is one of the three (3) Project Implementing Entities under the Project.


26. “MoF” means the Ministry of Finance of the Recipient, or any successor thereto.


28. “MoU” means the memorandum of understanding to be executed among CBSL, SEC and IBSL, in order to establish a consolidated and risk-based approach to supervision of financial institutions, and appoint the CBSL as the lead supervisor for such a consolidated supervision.

29. “National Insurance Trust Fund” or the acronym “NITF” means the National Insurance Trust Fund, established through the Recipient’s National Insurance Trust Fund Act (No. 28 of 2006), or any successor thereto, fully owned and managed under the MoNP&EA.

30. “Operations Manual” means the operations manual to be adopted by the Recipient and all three Project Implementing Entities in accordance with Section 1.B of Schedule 2 to this Agreement.


32. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 4, 2017 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.

33. “Project Agreements” means collectively the Agreements referred to in Paragraphs 2, 20 and 35 of this Section, and the term Project Agreement means any of the Project Agreements.

34. “Project Executing Agencies” means the MoF and MoNP&EA of the Recipient, or the successor thereto.

35. “Project Implementing Entities” means CBSL, SEC and IBSL collectively.
36. "Project Implementing Entities' Legislation" means the establishing legislation for any of the Project Implementing Entities, referred to in Paragraphs 6, 24 and 37.

37. "Project Steering Committee" means the steering committee to be established and maintained pursuant to Section I.A.1 of the Schedule 2 to this Agreement, co-chaired by the Governor of the CBSL and the Secretary to the Treasury of the MoF.

38. "SEC Project Agreement" means agreement between the Association and the SEC relating to the implementation of Components 1(a), 1(d) and 2(b) of the Project, as such agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to the SEC Project Agreement.

39. "SEC Subsidiary Agreement" means the agreement referred to in Section I.C of Schedule 2 to this Agreement pursuant to which the Recipient shall make part of the proceeds of the Credit available to the Project Implementing Entity.

40. "Securities Exchange Commission" or the acronym "SEC" means the Securities Exchange Commission of Sri Lanka, established through the Securities and Exchange Commission of Sri Lanka Act (No. 36 of 1987, as amended by Act No. 26 of 1991, Act No. 18 of 2003 and Act No. 47 of 2009) and is one of the three (3) Project Implementing Entities under the Project.

41. "Selected Mid-Level Reforms" means mid-level reforms as defined in the FSAP development module conducted in 2015, including establishment of an institutional and legal framework for financial consumer protection, improvement of investment management of pension provident funds, and removal of the monopoly of state-owned insurance companies in insurance business with the Recipient.

42. "Subsidiary Agreements" means collectively the Agreements referred to in Section I.C of this Section, and the term Subsidiary Agreement means any of the Project Agreements.

43. "Training and Workshops" means the reasonable costs of trainings, seminars, workshops, conferences, 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 staff of the Recipient.

44. "Verification Report" means each report to be provided by the Recipient under terms of reference satisfactory to the Association as evidence that one or more DLRs has been met as required by Section IV.B.1(b) of Schedule 2 to this Agreement.
Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the Table of Contents, the references to Sections, Section names and Section numbers are modified, as necessary, to reflect the modifications set forth in the paragraphs below.

2. Section 2.07 (Refinancing Preparation Advance) is retitled as “Refinancing Preparation Advance; Capitalizing Front-end Fee”, amended by adding a new paragraph (b), and modified to read as follows:

“Section 2.07. Refinancing Preparation Advance; Capitalizing Front-end Fee

(a) If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Bank or the Association (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.

(b) Except as otherwise provided in the Financing Agreement, the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01 (a).”

3. Section 3.01 (Commitment Charge) is retitled as “Front-end Fee; Commitment Charge”, amended by adding a new paragraph (a), and modified to read as follows:

“Section 3.01. Front-end Fee; Commitment Charge

(a) The Recipient shall pay the Association a front-end fee on the Credit amount at the rate specified in the Financing Agreement (the “Front-end Fee”).

(b) The Recipient shall pay the Association a commitment charge on the Unwithdrawn Credit Balance at the rate specified in the Financing Agreement (the “Commitment Charge”). The Commitment Charge shall accrue from a date sixty days after the date of the Financing Agreement to the respective dates on which amounts are withdrawn by the Recipient from the Credit Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date.”
4. Section 3.02 (Service Charge) is retitled as “Interest Charge” and modified to read as follows:

“Section 3.02. 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 Charges shall be computed on the basis of a 360-day year of twelve 30-day months.”

5. Section 3.03 (Repayment of the Credit) is modified by deleting paragraph (b) in its entirety and amending the remaining paragraph (a) to read as follows:

“Section 3.03. Repayment of the Credit

The Recipient shall repay the Withdrawn Credit Balance to the Association in installments as provided in the Financing Agreement.”

6. In the Appendix, Definitions, all relevant references to Sections, numbers and paragraphs are modified, as necessary, to reflect the modifications set forth in paragraphs 1 through 5 above.

7. Paragraph 28 of the Appendix (“Financing Payment”) is modified to read as follows:

“28. “Financing Payment” means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions, including (but not limited to) any amount of the Withdrawn Credit Balance, interest, the Front-end Fee and the Commitment Charge.”

8. A new paragraph 30 is inserted in the Appendix with the following definition of “Front-end Fee”, and the subsequent paragraphs are renumbered accordingly:

“30. “Front-end Fee” means the fee specified in the Financing Agreement for the purpose of Section 3.01 (a).”

9. A new paragraph 33 is inserted in the renumbered Appendix with the following definition of “Interest Charge”, and the subsequent paragraphs are renumbered accordingly:

“33. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02.”

10. Renumbered paragraph 38 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by deleting the words “Service Charges” and inserting the
words "Interest Charges".

11. Renumbered paragraph 51 (originally paragraph 49) of the Appendix ("Service Charge") is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.