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CONFORMED COPY

CREDIT NUMBER 4423-CE

Financing Agreement

(Additional Financing for Education Sector Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 16, 2008

FINANCING AGREEMENT

AGREEMENT dated September 16, 2008, 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 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 six million one hundred thousand Special Drawing Rights (SDR 6,100,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out the Project:
- (a) at the central level, through MOE, supported by national level education institutions including NEC, NIE, the National Education Research and Evaluation Center, the Faculty of Education of the University of Colombo, other departments of education of the universities of the Recipient, and other national research organizations of the Recipient; and
 - (b) at the provincial level, through the Provincial Education Ministries in the Provincial Councils supported by central agencies of the Recipient including the MOE, NEC, NIE and the Finance Commission;

all 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 consist of the following:
- (a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and
 - (b) the Program shall have been suspended, varied or altered so as to affect materially and adversely the Project's implementation and the achievement of its objectives; and
 - (c) in any year of the Project, any Annual Rolling Plan, including the administrative, financial and procurement regulations relating to such year, shall have been amended, suspended, varied or altered so as to affect materially and adversely the efficiency, economy and transparency of various operational, implementation and procurement procedures under this Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that any of the events specified in paragraph (b) or (c) of Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Recipient.

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 the Secretary, Ministry of Finance and Planning.
- 6.02. The Recipient's Address is:

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

Cable address:	Telex:	Facsimile:
SECMINFIN	FINMIN 21409	94-11-2449823
FORAID 21232		94-11-2447633

- 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 Washington, D.C.	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

/s/ PUNCHI BANDARA JAYASUNDERA
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient in carrying out innovative policy initiatives and strategies set forth in the Program to: (i) promote equitable access to basic education (grades 1 through 9) and secondary education (grades 10 through 13); (ii) improve the quality of education; (iii) enhance the economic efficiency and equity of resource allocation and distribution within the Recipient's basic and secondary education system; and (iv) strengthen education governance and service delivery.

The Project consists of the following additional activities that will scale up the Original Project, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives.

Part 1: Promoting Equitable Access to Basic and Secondary Education

- A. Development and implementation of a master plan for bilingual (English and local language medium) education, including provision of training to teachers, development of curriculum material and textbooks, acquisition of learning aids, and establishment of a separate administrative unit within MOE responsible for bilingual education.
- B. Expansion of the number of Category 2 and Category 3 Schools with safe drinking water and clean sanitation through carrying out of school health inspections, provision of resource material on school health and nutrition, establishment of school health centers, and certification of schools as health promoting schools.

Part 2: Improving the Quality of Education

- A. Provision of support to the Recipient for the enhancement of teaching of English as a second language through: (i) provision of training to English teachers, and acquisition and distribution of English language learning materials to school children; and (ii) monitoring the cognitive achievement levels by school children of English as a second language through carrying out national assessments of learning outcomes.
- B. Carrying out of a review of the civics and history curricula by multi-ethnic and multi-cultural review committees with a view to promoting inter-ethnic trust and respect for cultural diversity, and development and distribution to secondary schools of revised curriculum material based on such review.

Part 3: Enhancing the Economic Efficiency and Equity of Resource Allocation and Distribution

Upgrading of higher-order learning spaces in Category 2 and Category 3 Schools, including construction, renovation or refurbishment of school computer technology centers and library resource centers, in order to reduce regional disparities between schools.

Part 4: Strengthening Education Governance and Service Delivery

- A. Development and implementation of joint multi-ethnic training programs for teachers from different ethnic and cultural backgrounds.
- B. Development and implementation of a structured human resource development plan for civics and history curriculum developers to enhance their capacity to develop curricula that promote inter-ethnic trust and respect for diversity.
- C. Promotion of co-curricular activities among children of different ethnic communities, including facilitation of exchange programs, literary and drama festivals, and games and sports, among students from different ethnic and cultural backgrounds in different parts of the country.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. (a) The Recipient shall maintain, throughout Project implementation, a steering committee which shall be responsible for important policy decision-making and monitoring overall Program performance and which shall be chaired by the Secretary of MOE and, in addition, composed of, *inter alia*, the Chairman of NEC, the Chairman of the Finance Commission, the Director General of the National Planning Department, the Director General of the National Budget Department, the Director General of the External Resources Department, the Secretaries of each Provincial Education Ministry, the Additional Secretary for Planning and Performance Review within MOE, the Additional Secretary for Education Development within MOE, the Recipient's Commissioner General for Examinations and Testing Services, the Commissioner General of the Education Publications Department within MOE, and the Director General of NIE.
- (b) Throughout Project implementation the Association may provide a representative to attend all meetings of the said steering committee and shall be given seven days advance notice of any meeting in order to make arrangements for its representative to attend.
2. The Recipient shall:
 - (a) maintain public expenditure on basic and secondary education at least at the baseline level of expenditure in Fiscal Year 2004 in real terms; and
 - (b) maintain key demand-side incentives in public schools, in particular, tuition-free education and the free textbook program, to promote school attendance and quality.
3. The Recipient, through the Finance Commission, shall retain throughout the duration of Project implementation, a financial management specialist on terms and conditions satisfactory to the Association, to monitor performance of the Project at the provincial level and, *inter alia*, to provide overall strengthening to the Finance Commission.

B. Anti-Corruption

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

C Environmental and Social Safeguards

5. The Recipient shall implement the Project in accordance with applicable environmental and social safeguards specified in the ESSAF.
6. The Recipient shall, in respect of the Project:
 - (a) prepare and implement Environmental Checklists and Environmental Management Plans in accordance with the ESSAF for all construction works;
 - (b) prepare environmental impact assessments for Project activities in all cases where it is notified by the Association that such assessments are required;
 - (c) ensure that Project activities to be financed under the Project are fully consistent with criteria set out in the ESSAF; and
 - (d) undertake regular environmental appraisal, supervision, monitoring and re-evaluation of the implementation of the Project, in accordance with procedures satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Program and 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 agreed with the Association. Each Project Report shall cover the period of one calendar quarter and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
2. In each year of Project implementation, the Recipient, through MOE, the Provincial Education Ministries, the Finance Commission and the MFP, as appropriate, shall:
 - (a) carry out an annual review of the Program and the Project providing, *inter alia*, evidence of progress in accordance with such year's National

Annual Rolling Plan or on performance and monitoring indicators agreed with the Association;

- (b) no later than May 15 in each year, submit to the Association for its comments and recommendations, draft Annual Rolling Plans prepared by MOE, each Provincial Education Ministry, MFP and the Finance Commission for the following year of the Program and the Project;
- (c) no later than September 15 in each year, prepare, through MOE in consultation with each Provincial Education Ministry, the Finance Commission and MFP, a draft version of the National Annual Rolling Plan taking into account the Association's comments on each of the draft Annual Rolling Plans;
- (d) undertake monitoring, evaluation, research and studies, on relevant education topics and themes, in accordance with its obligations under the relevant Annual Rolling Plan and at other times as agreed with the Association; and
- (e) provide promptly, such other information regarding implementation of the Program and the Project as the Association shall request from time to time.

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 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 Fiscal Year. 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 table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	<i>National Competitive Bidding*</i>
(b)	<i>Shopping</i>
(c)	<i>Direct Contracting</i>
(d)	<i>Force Account</i>

* In order to ensure economy, efficiency, transparency and broad consistency with the provision of the Procurement Guidelines, the procurement of goods and works through National Competitive Bidding shall be subject to the following requirements:

- (i) only the Recipient's specific model bidding documents for national competitive bidding, as agreed with the Association (and as amended from time to time in agreement with the Association) shall be used for bidding for the procurement of goods under National Competitive Bidding;

- (ii) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least twenty one (21) days prior to the deadline for the submission of bids;
- (iii) bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iv) there shall not be any restrictions on the means of delivery of the bids, which shall be either through post or hand delivered; electronic submissions shall not be permitted.
- (v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders (including state-owned enterprises or small-scale enterprises) in the bidding process; no special preferences should be accorded to any enterprises or bodies;
- (vi) qualification criteria shall be stated in the bidding documents and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable time for registering, without let or hindrance;
- (vii) bids shall be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding documents the bidding documents should indicate the date, time and place of bid opening;
- (viii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and within a specified period agreed with the Association, and within the bid validity period indicated in the bidding documents;
- (ix) bids shall not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association;
- (x) contracts shall be awarded to the lowest evaluated bidders;
- (xi) except with the prior concurrence of the Association, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder;
- (xii) re-invitation of bids shall not be carried out without the prior concurrence of the Association;
- (xiii) all bidders/contractors shall provide a bid/performance security as required in the bidding/contract documents;

- (xiv) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xv) bids shall not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association; and
- (xvi) unless justified by *force majeure* and/or exceptional situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association, for: (a) the first request for extension if it is longer than four (4) weeks; and (b) all subsequent requests for extension irrespective of the period.

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 table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	<i>Quality Based Selection</i>
(b)	<i>Selection under a Fixed Budget</i>
(c)	<i>Least-Cost Selection</i>
(d)	<i>Selection Based on consultants' Qualifications</i>

D. Review by the Association of Procurement Decisions

- 1. 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.
- 2. Notwithstanding the provisions of the Procurement Plan and the Consultants' Guidelines, terms of reference for all consultants to be engaged under the Project and all terms of reference for studies to be carried out under the Project shall be provided to the Association for its review and comments at least fifteen (15) working days prior to the engagement of the consultant or carrying out of the study.

3. All overseas training to be financed under the Project shall be subject to the Association's Prior Review.

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 table below sets forth the Category of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to the Category and the percentage of expenditures for items so to be financed in such Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, works and consultants' services under the Program in each Fiscal Year from 2008 to 2011	6,100,000	100% of Eligible Expenditures in FY09 up to an aggregate amount equal in SDR to \$3,700,000; and 100% of Eligible Expenditures in FY 10 up to an aggregate amount equal in SDR to \$3, 300,000 and 100% of Eligible Expenditures in FY11 up to an aggregate amount equal in SDR to \$3,000,000.
TOTAL AMOUNT	6,100,000	

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 June 30, 2011.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15, commencing August 15, 2018 to and including February 15, 2028	5%

* 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. “Annual Rolling Plan” means the rolling plan prepared by each education sector agency for the period of January 1 to December 31 in each year of Project implementation containing, among other things: (i) policies and strategies under the four major themes of the Program; (ii) implementation, administration, fund flows and accounting manuals for Project implementation, including disbursement and procurement arrangements; and (iii) monitoring and performance indicators.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means the category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “Eligible Expenditures” means the aggregate of expenditures under the Category incurred by the Recipient for the Program excluding however the following expenditures: (a) salaries and wages of government officials; (b) school uniforms; (c) land acquisition; (d) higher education; and (e) expenditures financed by any other development partner.
6. “Environmental Checklists” means the forms provided for in the ESSAF designed to screen potential environmental impact of the Project through a series of questions on the environmental aspects.
7. “Environmental Management Plan” means an action plan, prepared pursuant to the ESSAF, whose substance shall be acceptable to the Association, for the mitigation of potential adverse environmental impacts caused by the carrying out of the Project, as the same may be amended from time to time with the agreement of the Association.
8. “ESSAF” means the environmental and social screening assessment framework prepared by the Recipient and approved by the Association on September 8, 2005, setting out: (i) the necessary background for environmental and social considerations to be built into the design of the Project; (ii) details of potential environmental and social issues that may arise under the proposed

project activities; and (iii) detailed guidelines on preparation of Environmental Management Plans.

9. "External Resources Department" means the External Resources Department within MFP, and any successor thereto.
10. "Finance Commission" means the commission established by the Thirteenth Amendment to the Recipient's Constitution of November 14, 1987 responsible for financial allocations to each of the Provincial Councils (as hereinafter defined), and any successor thereto.
11. "Fiscal Year" or "FY" means the Recipient's fiscal year which covers the period from January 1 to December 31.
12. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005, (as amended through October 15, 2006).
13. "MFP" means the Recipient's Ministry of Finance and Planning, and any successor thereto.
14. "MOE" means the Recipient's Ministry of Education, and any successor thereto.
15. "National Annual Rolling Plan" means the aggregate of the Annual Rolling Plans.
16. "National Budget Department" means the National Budget Department within MFP and any successor thereto.
17. "National Education Research and Evaluation Center" means the Recipient's National Education Research and Evaluation Center of the University of Colombo, established under the Recipient's Universities Act No. 18 of 1978, as amended and any successor thereto.
18. "National Planning Department" means the national planning Department within MFP, and any successor thereto.
19. "NEC" means the Recipient's National Education Commission established under the Recipient's National Education Commission Act of 1991, and any successor thereto.
20. "NIE" means the National Institute of Education established under the Recipient's National Institute of Education Act of 1985, and any successor thereto.

21. “Original Financing Agreement” means the development grant agreement for an Education Sector Development Project between the Recipient and the Association, dated January 16, 2006, (IDA Grant Number H196 - CE).
22. “Original Project” means the Project described in the Original Financing Agreement.
23. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
24. “Procurement Plan” means each of the Recipient’s initial procurement plans for the Project, the first dated September 23, 2005, 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.
25. “Program” means the Recipient’s Education Sector Development Framework and Program contained in a letter dated September 28, 2005, addressed to the Association from Secretary to MOE, which sets forth a comprehensive national policy for the development of the education sector for the period 2006-2010.
26. “Provincial Council” means a Provincial Council of the Recipient established by the Thirteenth Amendment to the Constitution of the Recipient dated November 14, 1987, and any successor thereto.
27. “Provincial Education Ministry” means each of the Provincial education ministries established within each of the Recipient’s Provincial Councils, and any successor thereto.
28. “Category 2 and Category 3 Schools” means the Category 2 and Category 3 Schools described in the letter dated April 9, 2008, from the Recipient to the Association.