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**CREDIT NUMBER 4412-CE**

# **Financing Agreement**

**(Public Sector Capacity Building Project)**

**between**

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 21, 2008**

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Public Disclosure Authorized



**CREDIT NUMBER 4412-CE**

**FINANCING AGREEMENT**

AGREEMENT dated July 21, 2008, 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 the Financing Agreement have the meanings ascribed to them in the General Conditions and 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 thirteen million eight hundred thousand special Drawing Rights (SDR 13,800,000) (“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 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with 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. To this end, the Recipient shall carry out the Project 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 – TERMINATION**

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

## **ARTICLE V– REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is The Secretary, Ministry of Finance and Planning.
- 5.02. The Recipient's Address is:

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

Cable:	Telex:	Facsimile:
SECMINFIN	FINMIN 21409	94 11 2449823 94 11 2447633

- 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 Washington, D.C.	248423 (MCI) or 64145 (MCI)	1-202-477-6391

AGREED in Colombo, Democratic Socialist Republic of Sri Lanka, as of the day and year first above written.

LANKA

DEMOCRATIC SOCIALIST REPUBLIC OF SRI

By

/s/ P.B. Jayasundera  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii  
Authorized Representative

## SCHEDULE 1

### Project Description

The objective of the Project is to enhance the effectiveness, efficiency and productivity of the Recipient's DCS and AGD.

The Project consists of the following parts:

#### 1. Statistical Capacity Upgrading

##### Part A: Organizational Development

- (i) Design and implementation by DCS of a data collection and coordination strategy to reduce duplication of work with other data collection agencies and transaction costs.
- (ii) Implementation of a skills development program for staff of DCS, including provision of training, workshops and study tours.

##### Part B: Statistical and IT Infrastructure and Client Service

- (i) Carrying out an assessment of the IT needs of DCS related to the design of surveys, and the collection, transmission, processing, management, and dissemination of data.
- (ii) Design, development and implementation of an IT system for DCS.
- (iii) Provision of training on IT to staff of DCS.
- (iv) Acquisition of computer hardware and software for data development and information sharing for DCS.
- (v) Provision of technical assistance to DCS in the design and improvement of client-oriented data sharing and consultation, and in the development and implementation of a user-education strategy to facilitate statistically accurate use of data among users.
- (vi) Provision of training to staff of DCS to improve service delivery and responsiveness to users.
- (vii) Development of a system for web-based data dissemination, including preparation of guidelines to improve data sharing.

Part C: Data Development

- (i) Design and development of integrated database containing major economic and social statistics.
- (ii) Facilitation of study visits for technical staff of DCS in order to familiarize them with international best practice in data development.
- (iii) Provision of training to staff of DCS on statistical series.

Part D: Infrastructure

Construction of a building to house eighteen (18) divisions of DCS.

**2. Improvement of Audit Standards**

Part A: Audit Methodology

Enhancement of the capacity of AGD to expand audits to include investigative and performance audits over the medium term, including preparation of manuals and guidelines and provision of specialized training to staff of AGD.

Part B: Human Resource Development

Development and implementation of a human resources development strategy for AGD, including development of an objective staff assessment and evaluation system, development and implementation of training programs in international best audit practice for AGD staff, and facilitation of twinning arrangements for public auditing staff of AGD.

Part C: Communications and External Relationships

Enhancement of the capacity of AGD to communicate with the Recipient's Parliament, auditees, and the general public in order to build better understanding and relationships, through provision of: (i) technical assistance and training; (ii) financing of media access; and (iii) acquisition of electronic and other communication equipment to support improved media relations.

Part D: IT and Equipment/Fittings

Development and phased implementation of IT operating systems, including (i) acquisition of computer hardware and software; (ii) provision of staff training; and (iii) acquisition of furniture, equipment and fittings

for the office building to be constructed under Part E below and, where appropriate, customization of offices through carrying out of minor works.

Part E: Infrastructure

Construction of an office building for AGD.



## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

1. For the purposes of carrying out Part 1 of the Project, the Recipient, through DCS, shall:
  - (a) maintain for the duration of the Project a Project steering committee within DCS having membership acceptable to the Association including representation of key stakeholders, all with skills and experience and terms of reference acceptable to the Association, to monitor activities under Part 1 of the Project and ensure coordination with the other Parts of the Project;
  - (b) maintain for the duration of the Project a Project management unit within DCS headed by a Project Director, and staffed with a full-time procurement specialist, a full-time financial management specialist, and other technical staff in adequate numbers, all with skills and experience and terms of reference acceptable to the Association, to carry out activities under Part 1 of the Project under the overall control and monitoring of the DCS PSC; and
  - (c) implement the DCS Statistical Masterplan in accordance with the DCS Implementation Plan, and in a manner satisfactory to the Association.
  
2. For the purposes of carrying out Part 2 of the Project, the Recipient, through AGD, shall:
  - (a) maintain for the duration of the Project, a Project steering committee within AGD having membership acceptable to the Association including representation of key stakeholders, all with skills and experience and terms of reference acceptable to the Association, to monitor activities under Part 2 of the Project and ensure coordination with the other Parts of the Project;
  - (b) maintain for the duration of the Project, a Project management unit within AGD, headed by the Auditor General as AGD Project Director and staffed with a full-time procurement specialist, a full-time financial management specialist, and other technical staff in

adequate numbers, all with skills and experience and terms of reference acceptable to the Association, to carry out activities under Part 2 of the Project under the overall control and monitoring of the AGD PSC; and

- (c) implement the AGD Institutional Development Plan in a manner satisfactory to the Association.

3. The Recipient shall cause DCS and AGD to:

- (a) prepare, by no later than July 31 in each year, commencing on July 31, 2009, and furnish to the Association and the AGD PSC or the DCS PSC, as the case may be, for its review and concurrence, a draft annual implementation plan of the Project activities, including a work program and proposed budget, for the next following fiscal year;
- (b) finalize, by no later than September 1 next following, finalize such annual implementation plan based on the draft as so discussed with, and agreed by, the Association and the AGD PSC or the DCS PSC, as the case may be; and
- (c) thereafter, carry out Project activities in accordance therewith.

4. The Recipient shall: (i) implement the Project in accordance with the Operations Manual, the Financial Management Manual, the Procurement Plan, and the Environmental Safeguards Management Framework; (ii) not amend or waive any provision of the said documents without the Association's prior approval; and (iii) allocate sufficient staff with adequate resources to enable it to comply with the provisions of this Paragraph.

### **Safeguards**

5. The Recipient shall ensure that construction of buildings under the Project shall take place only on publicly owned property, which shall be free and clear of any encroachments or squatters and that there shall be no acquisition of private land under the Project.

6. Prior to commencing any works under the Project, the Recipient shall submit to the Association an environmental management plan and, if notified by the Association that it is required, an environmental impact assessment for such works, in each case satisfactory to the Association and in accordance with the Environmental Safeguards Management Framework, and thereafter implement such environmental management plan in a manner satisfactory to the Association and obtain all environmental compliance certificates required under the laws of the Recipient.

7. The Recipient shall take all necessary actions to prevent any involuntary loss by persons of shelter, productive assets or access to productive assets or income or means of livelihood, temporarily or permanently due to works under the Project.

#### **Anti-corruption**

8. 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 shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators 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. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than four (4) months after the Closing Date.

#### **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 un-audited 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, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made. 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 Schedule.
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 Schedule.
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 paragraphs 2 and 3 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 and National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>	
(a)	<i>National Competitive Bidding*</i>
(a)	<i>Shopping</i>
(b)	<i>Direct Contracting</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 Sri Lanka-specific model bidding documents as agreed on with the Association (and as amended from time to time and agreed with the Association) will be used;
- (ii) invitations to bid will be advertised in at least one widely circulated national daily newspaper. Bidding documents will be made available at least twenty-one (21) days before the deadline for the submission of the bids;
- (iii) bidding documents will be issued by mail or in person to all who are willing to pay the required fee;
- (iv) qualification criteria will be stated in the bidding document (in both pre- and post qualification cases), 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;
- (v) there will not be any restrictions on the means of delivery of the bids, which shall be either through post or hand-delivered. Electronic submissions will not be permitted;
- (vi) 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 will be accorded to any enterprises or bodies;
- (vii) bids will 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 will indicate the date, time and place of bid opening);
- (viii) evaluation of bids will be made in strict adherence to the criteria disclosed in the bidding document, in a format and within the specified period agreed with the Association, and within the bid validity period specified in the bidding documents;
- (ix) contracts will be awarded to the lowest evaluated responsive bidder;
- (x) bids will not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;

- (xi) except with the prior concurrence of the Association, there will be no negotiation of price with bidders, even with the lowest evaluated bidder;
- (xii) reinvitation of bids will not be carried out without the prior concurrence of the Association;
- (xiii) 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 without the prior concurrence of the Association: (1) for the first request for extension if it is beyond eight weeks; and (2) for all subsequent requests for extension irrespective of the period;
- (xiv) all bidders and contractors shall provide bid and performance security as required in the bidding and contract documents;
- (xv) 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 it was furnished; and
- (xvi) bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association.

**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.

<b>Procurement Method</b>	
(a)	Quality Based Selection
(b)	Selection under a Fixed Budget
(c)	Least Cost Selection

(d)	Selection Based on Consultants Qualifications
(e)	Single Source Selection
(f)	Selection of Individual Consultant

**D. Review by the Association of Procurement Decisions**

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$100,000 or more procured on the basis of International Competitive Bidding or National Competitive Bidding and the first goods contract to be procured by each implementing agency under National Competitive Bidding, irrespective of value; (b) each contract for works estimated to cost the equivalent of \$500,000 or more procured on the basis of International Competitive Bidding or National Competitive Bidding, as the case may be and the first works contract to be procured by each implementing agency under National Competitive Bidding, irrespective of value; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (d) each contract for individual consultants estimated to cost the equivalent of \$50,000 or more; and (e) all single/sole sourced contracts. All other contracts shall be subject to Post Review by the Association.

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

**A. General**

1. The Recipient may withdraw the proceeds of the Financing 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).
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 the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of taxes)</b>
(1) Goods, consultants' services, training and Incremental Operating Costs under Part 1 of the Project	4,750,000	100%
(2) Works under Part 1 of the Project	2,600,000	100%
(3) Goods, consultants' services, training and Incremental Operating Costs under Part 2 of the Project	3,690,000	100%
(4) Works under Part 2 of the Project	2,760,000	100%
<b>TOTAL</b>	<b>13,800,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made:
  - (a) prior to the date of this Agreement except that withdrawals up to an aggregate amount of \$1,000,000 equivalent may be made for expenditures incurred before this date but after April 1, 2008, in respect of Categories (1) and (3);
  - (b) under Category (2) until the Recipient has: (i) allocated appropriate publicly-owned land for the building to be constructed under Part 1.D of the Project; (ii) if notified by the Association that it is required, carried out an Environmental Impact Assessment acceptable to the Association for the works to be carried out under Part 1.D of the Project; and (iii) prepared an Environmental Management Plan acceptable to the Association for such works; and
  - (c) under Category (4) until the Recipient has prepared an Environmental Impact Assessment and an Environmental Management Plan, both acceptable to the Association, for the works to be carried out under Part 2.E of the Project.
2. The Closing Date is December 31<sup>st</sup>, 2011.



**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each March 15 and September 15	
commencing September 15, 2018 and including March 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. "AGD" means the Recipient's Department of the Auditor General and any successor thereto.
2. "AGD Institutional Development Plan" means the institutional development plan for AGD set out in the CFAA, and to be carried out by AGD as provided for in Paragraph 2(c) of Schedule 2, Section 1 to this Agreement.
3. "AGD PMU" means the Project management unit established within AGD and to be maintained for the duration of the Project, as provided for in Paragraph 2(b) of Schedule 2, Section 1 to this Agreement.
4. "AGD PSC" means the Project Steering Committee established within AGD and to be maintained for the duration of the Project, as provided for in Paragraph 2 (a) of Schedule 2, Section 1 to this Agreement.
5. "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.
6. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
7. "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.
8. "Country Financial Accountability Assessment" and "CFAA" mean the assessment carried out by the Recipient dated June 2003, which includes recommendations for improving the Auditor-General's Department and the AGD Institutional Development Plan.
9. "DCS" means the Recipient's Department of Census and Statistics established within the Ministry of Finance and Planning, and any successor thereto.
10. "DCS Implementation Plan" means the time-bound action plan dated April 1<sup>st</sup>, 2008 prepared by the Recipient and acceptable to the Association, for implementation of the DCS Statistical Masterplan.
11. "DCS PMU" means the Project management unit established within DCS and to be maintained for the duration of the Project, as provided for in Paragraph 1(b) of Schedule 2, Section 1 to this Agreement.

12. "DCS PSC" means the Project Steering Committee established within DCS and to be maintained for the duration of the Project, as provided for in Paragraph 1 (a) of Schedule 2, Section 1 to this Agreement.
13. "DCS Statistical Masterplan" means the master plan dated February 2007, prepared by DCS, containing details for a national initiative to improve statistical capacity, and to be carried out by DCS as provided for in Paragraph 1(c) of Schedule 2, Section 1 to this Agreement.
14. "Environmental Safeguards Management Framework" means the guidelines dated March 20, 2007, prepared and publicly disclosed by the Recipient, and acceptable to the Association, for environmental and social safeguard management for undertaking analysis, including impact assessments, and developing mitigation measures for all Project activities.
15. "Financial Management Manual" means the Recipient's manual for financial management of the Project prepared by the Recipient on March 25, 2008, and which sets forth procedures for accounting, financial management and disbursement for the Project.
16. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005, (as amended through October 15, 2006).
17. "Incremental Operating Costs" means the reasonable costs incurred by DCS and AGD in respect of the Project including travel costs for staff, vehicle rental and maintenance, fuel and insurance costs, office rent, office supplies, communication expenses, bank charges, advertising expenses, utilities and security but excluding salaries of the Recipient's civil servants.
18. "IT" means information technology.
19. "Operations Manual" means the manual dated March 31, 2008, adopted by DCS and AGD detailing the implementation, financial management, procurement procedures and project monitoring to be followed during Project implementation.
20. "Procurement Guidelines" means the "Guidelines for Procurement under IBRD Loans and the IDA Credits" published by the Bank in May 2004, and revised in October 2006.
21. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 30, 2008, 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.

