

CONFORMED COPY

CREDIT NUMBER 4804-LK

Financing Agreement

(Small and Medium Enterprise Development Facility Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 8, 2010

CREDIT NUMBER 4804-LK

FINANCING AGREEMENT

AGREEMENT dated November 8, 2010, entered into between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“the Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“the Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions, or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to thirty seven million eight hundred thousand Special Drawing Rights (SDR 37,800,000) (variously, “the Credit” and “the Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“the 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 The Maximum Commitment Charge Rate payable by the Recipient on the Un-withdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through the Ministry of Finance and Planning, using the services of the Risk Sharing Facility Agent with respect to Part 1(b) of 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 — EFFECTIVENESS

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the appointment of the deputy Project director for small and medium enterprise banking referred to in Section I.A.6 (b) of Schedule 2 to this Agreement has been effected.
- 4.02. 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 of the Ministry of Finance and Planning.
- 5.02. The Recipient's Address is:

Ministry of Finance and Planning
The Secretariat
Colombo 1
Sri Lanka

Facsimile:

94-11-244-9823

94-11-244-7633

5.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI)

1-202-477-6391

Washington, D.C.

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ P. B. Jayasundera

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Amit Dar

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve access to finance, including term finance, for small and medium enterprises in Sri Lanka affected by the global financial crisis.

The Project consists of the following parts:

1. Financing and Risk Sharing
 - (a) Carrying out of productive investments for small and medium enterprises, through the establishment of Lines of Credit for Participating Financial Institutions for purposes of provision of Subproject Loans to such enterprises.
 - (b) Expansion of access to and terms of finance for small and medium enterprises, through the establishment of Risk Sharing Facilities in relation to portfolios of small and medium enterprise Subproject Loans originated and held by Participating Financial Institutions.
2. Policy and Capacity Enhancement for Small and Medium Enterprise Banking
 - (a) Capacity building of Participating Financial Institutions in relation to the provision of financing to small and medium enterprises, and of such enterprises in relation to the effective utilization of such financing.
 - (b) Strengthening of the enabling environment for small and medium enterprise financing, including the carrying out of a diagnostic for purposes of identification of constraints and measures addressing such constraints.
 - (c) Provision of support to Project management, implementation, and monitoring and evaluation, including administrative and financial management, procurement, and disbursement.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall be responsible for Project management, implementation, and monitoring and evaluation, including administrative and financial management, procurement, and disbursement in accordance with the following arrangements.
2. The Recipient shall be responsible for implementation of the Project through the Ministry of Finance and Planning, using the services of the Risk Sharing Facility Agent with respect to Part 1 (b) of the Project.

Steering Committee

3. The Recipient shall be responsible for the provision of policy and strategic orientation to the Project through the Steering Committee.
4. To this end, the Recipient shall maintain, throughout Project implementation, the Steering Committee, comprising a majority of representatives from the private sector, and with an adequate institutional framework, functions, and resources as shall be required for purposes of Project implementation.

Ministry of Finance and Planning

5. The Recipient shall be responsible for Project management, implementation, and monitoring and evaluation, including administrative and financial management, procurement, and disbursement, through the Project Implementation Unit.
6. To this end, the Recipient shall: (a) maintain, throughout Project implementation, the Project Implementation Unit, with an adequate institutional framework, functions, and resources, including competent personnel in adequate numbers, as shall be required for purposes of Project implementation; and (b) appoint to such Unit, and maintain throughout Project implementation, a deputy Project director for small and medium enterprise banking, with qualifications, experience, and terms of reference as shall be required for purposes of Project implementation.

B. Risk Sharing Facility Service Agreement

1. To facilitate the carrying out of Part 1 (b) of the Project, the Recipient shall enter into a Risk Sharing Facility Service Agreement with the Risk Sharing Facility Agent, under terms and conditions satisfactory to the Association, which shall include the obligation of the Risk Sharing Facility Agent to:
 - (a) ensure that Part 1 (b) of the Project is carried out in accordance with the provisions of Part E of this Section;
 - (b) ensure that Part 1 (b) of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines;
 - (c) ensure that Part 1 (b) of the Project is implemented in accordance with the provisions of the Project Operations Manual, including the Project Financial Management Manual, and the Risk Sharing Facility Operations Manual, and without any right or authority, except as the Association shall otherwise agree, to assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof;
 - (d) ensure that Part 1 (b) of the Project is carried out in accordance with the provisions of the Environmental and Social Risk Management Frameworks and any Environmental and / or Social Management Plans, and that no activity involving land acquisition or Involuntary Resettlement is included under any Subproject financed, or financed under any Subproject Loan made, pursuant to a Risk Sharing Facility; and
 - (e) (i) enter into a Risk Sharing Facility Agreement, in form and substance satisfactory to the Association, with each Participating Financial Institution; and (ii) ensure that the subject Risk Sharing Facility is established and managed in accordance with the provisions of such Agreement.
2. The Recipient shall exercise its rights under the Risk Sharing Facility Service Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

C. Anti-Corruption

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

D. Manuals

1. The Recipient shall adopt a Risk Sharing Facility Operations Manual, in form and substance satisfactory to the Association, setting out implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, financial management, and disbursement arrangements for purposes of the management and operations of Risk Sharing Facilities.
2. The Recipient shall: (a) ensure that the Project is carried out in accordance with the Project Operations Manual, including the Project Financial Management Manual, and the Risk Sharing Facility Operations Manual; and (b) except as the Association shall otherwise agree, not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.
3. In the event of a conflict between the provisions of any of such manuals, and those of this Agreement, the latter shall prevail.

E. Lines of Credit, Risk Sharing Facilities, and Subproject Loans**1. General**

- (a) The Recipient shall ensure, and cause the Risk Sharing Facility Agent to ensure, that the Risk Sharing Facility Account is established and managed in accordance with the provisions of Annex 1 to this Schedule.
- (b) The Recipient shall review and appraise Line of Credit proposals, and cause the Risk Sharing Facility Agent to review and appraise Risk Sharing Facility proposals, and Participating Financial Institutions to review and appraise Subproject Loan proposals and thereafter monitor and evaluate Subprojects, on behalf of the Recipient, in accordance with the provisions of this Part E, the Project Operations Manual, including the Project Financial Management Manual, the Risk Sharing Facility Operations Manual, the Environmental and Social Risk Management Frameworks, and any Environmental and / or Social Management Plans.
- (c) The Recipient shall ensure that Lines of Credit and Risk Sharing Facilities are managed, and Subprojects are carried out, in accordance

with the provisions of the respective Line of Credit Agreement, Risk Sharing Facility Agreement, and Subproject Loan Agreement, respectively.

- (d) The Recipient shall adopt a model Line of Credit Agreement and a model Risk Sharing Facility Agreement, both in form and substance satisfactory to the Association and reflecting the terms and conditions set forth or referred to in paragraph 3 (a) of this Part E.

2. Eligibility

No Line of Credit shall be extended, or Risk Sharing Facility established, and no Subproject shall be eligible for financing, under the Project, unless, on the basis of an appraisal conducted in accordance with this Part E, the Project Operations Manual, including the Project Financial Management Manual, or the Risk Sharing Facility Operations Manual, as the case may be, and the Environmental and Social Risk Management Frameworks, the Line of Credit, Risk Sharing Facility, or Subproject is deemed to satisfy the eligibility criteria specified below and in further detail in the Project Operations Manual, including the Project Financial Management Manual, or the Risk Sharing Facility Operations Manual, as the case may be, and the Environmental and Social Risk Management Frameworks, which shall include the following:

- (a) the proposed Line of Credit or Risk Sharing Facility has been requested by a financial institution established and operating pursuant to the laws of the Recipient;
- (b) the proposed Subproject has been prepared by a small or medium enterprise, defined as being an enterprise: (i) established and operating pursuant to the laws of the Recipient; and (ii) (A) requesting a Subproject Loan, except for housing and consumer Subproject Loans, of less than Sri Lankan Rupees 10 million, (B) if requesting a Subproject loan exceeding Sri Lankan Rupees 10 million, having an annual turnover of less than Sri Lankan Rupees 300 million, or (C) fulfilling such other criteria as may be agreed with the Association;
- (c) the proposed Subproject satisfies the requirements of Part 1 of the Project as described in further detail in the Project Operations Manual, or the Risk Sharing Facility Operations Manual;
- (d) a Subproject Loan may not be made otherwise than for increased production of goods and services;

- (e) the proposed Line of Credit, Risk Sharing Facility, or Subproject is consistent with the relevant technical, financial, and administrative standards and national sector policies, and the proposed Subproject is financially viable, and technically, commercially, managerially, environmentally, and socially sound;
- (f) the Participating Financial Institution has put in place all necessary arrangements, including financial and human resources, for the management of the proposed Line of Credit, or Risk Sharing Facility; and
- (g) the amount of a Subproject Loan does not exceed Sri Lankan Rupees 60 million.

3. Terms and Conditions

- (a) A Line of Credit shall be established and managed pursuant to a Line of Credit Agreement to be concluded between the Recipient and the respective Participating Financial Institution, a Risk Sharing Facility pursuant to a Risk Sharing Facility Agreement to be concluded between the Risk Sharing Facility Agent, acting as facility agent on behalf of the Recipient, and the respective Participating Financial Institution, and a Subproject shall be carried out pursuant to a Subproject Loan Agreement to be concluded between the respective Participating Financial Institution and the respective Subproject Loan Beneficiary, under terms and conditions satisfactory to the Association, described in further detail in the Project Operations Manual, or the Risk Sharing Facility Operations Manual, as the case may be, which shall include the following:
 - (i) a description of the Line of Credit, the Risk Sharing Facility, or the Subproject, and the budget and performance indicators for the Subproject;
 - (ii) denomination of the Line of Credit, the Risk Sharing Facility, or the Subproject Loan in Sri Lankan Rupees;
 - (iii) repayment of the Line of Credit and the Subproject Loan over a maximum period of ten (10) years, including a grace period of up to two (2) years, and payment of interest on the Line of Credit and the Subproject Loan at a rate competitive to that for similar monies;

- (iv) payment of premiums on the Risk Sharing Facility in accordance with the provisions of the Risk Sharing Facility Operations Manual;
- (v) the obligation of the Participating Financial Institution and the Subproject Loan Beneficiary to: (A) manage the Line of Credit, or the Risk Sharing Facility, and carry out the Subproject, respectively, in accordance with the Project Operations Manual, including the Project Financial Management Manual, and the Risk Sharing Facility Operations Manual, as the case may be; and (B) with due diligence and efficiency and in accordance with sound technical, financial, administrative, environmental, and social practices;
- (vi) the obligation of the Participating Financial Institution to participate in the capacity building program under Part 2(a) of the Project on a cost-sharing basis in accordance with the provisions of the Project Operations Manual or the Risk Sharing Facility Operations Manual, as the case may be;
- (vii) the obligation of the Participating Financial Institution and the Subproject Loan Beneficiary to: (A) ensure that the resources required for the Line of Credit, or the Risk Sharing Facility, as the case may be, and the Subproject, respectively, are provided promptly as needed; (B) maintain adequate records to reflect, in accordance with sound accounting practices, the resources, operations, and expenditures relating to the Line of Credit, or the Risk Sharing Facility, as the case may be, and the Subproject, respectively; and (C) at the request of the Recipient or the Association, have such records audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the records as so audited to the Recipient and the Association;
- (viii) the obligation of the Participating Financial Institution to furnish to the Recipient, throughout Project implementation, no later than six (6) months after the end of such Institution's fiscal year, its annual audited financial statements for such year;
- (ix) the obligation of the Participating Financial Institution and the Subproject Loan Beneficiary to manage the Line of Credit, or the Risk Sharing Facility, as the case may be, and implement the

Subproject, respectively, in accordance with the provisions of the Anti-Corruption Guidelines;

- (x) the obligation of the Participating Financial Institution and the Subproject Loan Beneficiary to manage the Line of Credit, or the Risk Sharing Facility, as the case may be, and implement the Subproject, respectively, in accordance with the provisions of the Environmental and Social Risk Management Frameworks and any Environmental and / or Social Management Plans, and ensure that no activity involving land acquisition or Involuntary Resettlement is included under any Subproject financed, or financed under any Subproject Loan made, under the respective Line of Credit or pursuant to the respective Risk Sharing Facility;
- (xi) the obligation of the Subproject Loan Beneficiary to ensure that the goods, works, and consultants' services to be financed from the proceeds of the Subproject Loan are procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Section III of this Schedule, and used exclusively in the carrying out of the Subproject;
- (xii) the right of the Recipient in its own right, and of the Participating Financial Institution on behalf of the Recipient, to:
 - (A) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, and sites included in the Subproject, the operations thereof, and any relevant records and documents;
 - (B) obtain all information as it, or the Association, shall reasonably request regarding the management and operations of the Line of Credit, the Risk Sharing Facility, or the Subproject and the financial condition of the Subproject; and
 - (C) suspend or terminate the right of the Participating Financial Institution or the Subproject Loan Beneficiary to use the proceeds of the Line of Credit, the Risk Sharing Facility, or the Subproject Loan, or obtain a refund of all or any part of the amount of the Line of Credit, the Risk Sharing Facility, or the Subproject Loan then withdrawn, upon failure by the Participating Financial Institution or the Subproject Loan Beneficiary to perform any of its obligations under the Line of Credit Agreement, the Risk Sharing Facility Agreement, or the Subproject Loan Agreement, as the case may be; and

- (xiii) the obligation of the Subproject Loan Beneficiary to monitor and evaluate implementation of the Subproject, and to operationalize it following completion.
- (b) The Recipient shall exercise its rights under the Line of Credit Agreement, and cause the Risk Sharing Facility Agent to exercise its rights under the Risk Sharing Facility Agreement, and the Participating Financial Institution to exercise its rights under the Subproject Loan Agreement, in such manner as to protect the interests of the Recipient, the Risk Sharing Facility Agent as applicable, the Participating Financial Institution as applicable, and the Association, and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive, or permit to be assigned, amended, abrogated, or waived, the aforementioned, or any provision thereof.

F. Safeguards

1. The Recipient shall carry out the Project in accordance with the provisions of the Environmental and Social Risk Management Frameworks and any Environmental Assessments and Environmental and / or Social Management Plans.
2. The Recipient shall ensure that no activity involving land acquisition or Involuntary Resettlement is included under any Subproject, or financed under any Subproject Loan.
3. Wherever required in terms of the Environmental and Social Risk Management Frameworks, the Recipient shall, for the purposes of any Subproject, and prior to implementation thereof, proceed to have an Environmental Assessment, setting out the potential adverse environmental impacts of the Project, and Environmental and / or Social Management Plans, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, that have been identified by the Recipient to eliminate any adverse environmental and / or social impacts of activities to be implemented under the Subproject, offset them, or reduce them to acceptable levels, or enhance positive impacts, in accordance with the provisions of the Environmental and Social Risk Management Frameworks:
 - (a) prepared in form and substance satisfactory to the Association;

- (b) except as otherwise agreed with the Association, submitted to the Association for review and approval; and
 - (c) thereafter, adopted and locally disclosed.
- 4. The Recipient shall take all measures necessary on its part to regularly collect, compile, and submit to the Association, as part of the Project Reports, information on the status of compliance with the Environmental and Social Risk Management Frameworks and any Environmental Assessments and Environmental and / or Social Management Plans, providing details of:
 - (a) measures taken in furtherance of such instruments;
 - (b) any conditions which interfere or threaten to interfere with the smooth implementation of such instruments; and
 - (c) remedial measures taken or required to be taken to address such conditions.
- 5. The Recipient shall prepare, no later than three (3) months after the Effective Date, a document, in form and substance satisfactory to the Association, setting out environmental guidance for small and medium enterprises, and including baseline environmental information in relation to such enterprises.
- 6. The Recipient shall carry out, no later than one (1) year after the Effective Date, and thereafter on an annual basis throughout Project implementation: (a) an independent audit, in form and substance satisfactory to the Association, of implementation and monitoring and evaluation of the Environmental and Social Risk Management Frameworks and any Environmental Assessments and Environmental and / or Social Management Plans; and (b) a social impact assessment of the Project.
- 7. In the event of a conflict between the provisions of any of such instruments and those of this Agreement, the latter shall prevail.

G. Annual Work Plans and Budgets

The Recipient shall:

- (a) furnish to the Association for approval as soon as available, but in any case not later than October 31 of each year, the annual work plan and budget for the Project for each subsequent year of Project implementation, of such scope and detail as the Association shall have reasonably requested, except for the annual work plan and budget for the Project for the first year of Project implementation, which shall be furnished no later than one (1) month after the Effective Date; and
- (b) thereafter ensure that the Project is carried out in accordance with such plans and budgets as approved by the Association.

H. Semi-Annual Reviews

The Recipient shall review jointly with the Association, every six (6) months throughout Project implementation, the two (2) most recent Project Reports furnished to the Association, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of such Reports and the Association's views on the matter.

I. Midterm Review

The Recipient shall:

- (a) carry out jointly with the Association, no later than eighteen (18) months after the Effective Date, a midterm review to assess the status of Project implementation, as measured against the performance indicators referred to in Section II.A. 1(a) of this Schedule. Such review shall include an assessment of the following: (i) overall progress in Project implementation; (ii) results of monitoring and evaluation activities; (iii) progress on implementation of annual work plans and budgets; (iv) progress on procurement and disbursement; (v) progress on implementation of safeguards measures; (vi) implementation arrangements; and (vii) the need to make any adjustments to the Project and reallocate funds to improve performance;

- (b) prepare and furnish to the Association, at least three (3) months before such review, a report, in scope and detail satisfactory to the Association, needed to undertake the review, integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section on the progress achieved in the carrying out of the Project during the period preceding the date of the said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date; and
- (c) review, jointly with the Association, the report referred to in paragraph (b) of this Section and thereafter take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of said report and the Association’s views on the matter.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Recipient and the Association not later than forty-five (45) days after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

No.	Indicator
	Project Objective
1.	Lending, including term lending (defined as having a maturity of at least five (5) years), to small and medium enterprises, as evidenced by the number of Subproject Loan Beneficiaries and the volume of Subproject Loans
2.	Percentage of non-performing Subproject Loans (defined as being at least ninety (90) days past due)
	Part 1 of the Project
3.	Volume of Lines of Credit

4.	Number of Subproject Loan Beneficiaries pursuant to Risk Sharing Facilities
	Part 2 of the Project
5.	Number of Participating Financial Institutions having introduced enhanced credit scoring techniques, practices, and products in relation to small and medium enterprise lending
6.	Number of loan officers at Participating Financial Institutions having received training under the Project
7.	Access of small and medium enterprises to credit-specific business development services, as evidenced by the percentage of such enterprises having received training under Part 2 (a) of the Project obtaining financing from a commercial bank
8.	Carrying out of the diagnostic relating to the enabling environment for small and medium enterprise financing under Part 2 (b) of the Project

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, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The Recipient shall ensure that the audited Financial Statements for each such period shall be: (a) furnished to the Association not later than six (6) months after the end of such period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.

Section III. Procurement

A. General

1. **Goods, Non-Consulting Services, and Works.** All goods, non-consulting services, 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, Non-Consulting Services, and Works

- 1. **National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, non-consulting services, and works shall be procured under contracts awarded on the basis of National Competitive Bidding, subject to the additional procedures set out in Annex 2 to this Schedule.
- 2. **Other Methods of Procurement of Goods, Non-Consulting Services, and Works.** The following table specifies the methods of procurement, other than National Competitive Bidding, which may be used for goods, non-consulting services, and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Method</u>
(a) Shopping
(b) Established private sector or commercial practices acceptable to 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.

Procurement Method
(a) Quality-Based Selection
(b) Least-Cost Selection
(c) Selection Based on the Consultants’ Qualifications
(d) Single-Source Selection
(e) Selection of Individual Consultants
(f) Established private sector or commercial practices acceptable to the Association

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

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

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Subproject Loans under Lines of Credit (Part 1 (a) of the Project)	18,440,000	100% of amounts disbursed
(2) Risk Sharing Facilities (Part 1 (b) of the Project)	8,570,000	100% of amounts disbursed
(3) Goods, non-consulting services, works, consultants' services, Training, and Operating Costs (Part 2 of the Project)	7,910,000	100%
(4) Unallocated	2,880,000	
TOTAL AMOUNT	37,800,000	

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 not to exceed SDR 7,560,000 equivalent may be made for payments made prior to this date but on or after November 1, 2009, for Eligible Expenditures under Category (3);
 - (b) under Category (1), unless the Recipient has adopted a model Line of Credit Agreement in accordance with the provisions of Section I.E.1 (d) of this Schedule; or
 - (c) under Category (2), unless the Recipient has:
 - (i) entered into a Risk Sharing Facility Service Agreement in accordance with the provisions of Section I.B.1 of this Schedule, and all conditions precedent to its effectiveness have been fulfilled or waived;
 - (ii) adopted a Risk Sharing Facility Operations Manual in accordance with the provisions of Section I.D.1 of this Schedule;

- (iii) adopted a model Risk Sharing Facility Agreement in accordance with the provisions of Section I.E.1 (d) of this Schedule; and
- (iv) established the Risk Sharing Facility Account in accordance with the provisions of paragraph 1 of Annex 1 to this Schedule.

2. The Closing Date is March 31, 2014.

Section V. Access to Information

The Association may disclose the Legal Agreements and any information related to the Legal Agreements in accordance with its policy on access to information, in effect at the time of such disclosure.

ANNEX 1 TO SCHEDULE 2**Risk Sharing Facility Account**

1. The Recipient shall, for the purposes of Risk Sharing Facilities, establish and maintain, in a financial institution acceptable to the Association, on terms and conditions satisfactory to the Association, and entrust the Risk Sharing Facility Agent to manage, on behalf of the Recipient, the Risk Sharing Facility Account.
2. Deposits into, and payments out of, such Account shall be made in accordance with the terms and conditions set forth in this Agreement and the Risk Sharing Facility Service Agreement.
3. The proceeds of the Financing deposited in such Account shall be used exclusively for eligible expenditures in accordance with the terms of the Risk Sharing Facility Service Agreement.
4.
 - (a) If the Association determines that an amount of the proceeds of the Financing deposited in the Risk Sharing Facility Account has been used in a manner inconsistent with the provisions of this Agreement or the General Conditions, the Recipient shall, upon notice by the Association to the Recipient, promptly refund such amount to the Association. Such inconsistent use shall include, without limitation, use of such amount to make a payment for an expenditure that is not an eligible expenditure in accordance with the terms of this Agreement.
 - (b) Except as the Association may otherwise determine, the Association shall cancel all amounts refunded pursuant to subparagraph (a) above.
5. The Recipient shall promptly refund, or cause the Risk Sharing Facility Agent to promptly refund, to the Association any balance in such Account remaining after the Closing Date.
6. In order to ensure continued management of Risk Sharing Facilities following the Closing Date, the Recipient shall, no later than three (3) months before the Closing Date, deposit in the Risk Sharing Facility Account, such amount, to be agreed with the Association, as shall be required to cover commitments under any outstanding Risk Sharing Facility Agreements.

ANNEX 2 TO SCHEDULE 2**National Competitive Bidding: Additional Procedures**

The additional procedures set out below shall apply to the procurement of goods and works under contracts awarded on the basis of National Competitive Bidding in order to ensure economy, efficiency, transparency, and broad consistency with the provisions of Section I of the Procurement Guidelines, pursuant to paragraph 3.3 of said Guidelines. In the event of a conflict between the Recipient's procedures and the provisions of paragraphs 3.3 and 3.4 of the Procurement Guidelines, said paragraphs shall govern, including the following:

1. Only Recipient-specific standard bidding documents satisfactory to the Association, as may be amended from time to time with the prior written agreement of the Association, shall be used.
2. Invitations for bids shall be advertised in at least one (1) widely circulated national daily newspaper, and bidding documents shall be made available at least twenty-one (21) days prior, and issued up, to the deadline for submission of bids.
3. Bidding documents shall be issued by mail or in person to all who are willing to pay the required fee.
4. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders (including Recipient-owned enterprises or small-scale enterprises) in the bidding process. No special preferences shall be accorded to any enterprises or bodies.
5. Qualification criteria shall 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.
6. There shall not be any restrictions on the means of delivery of the bids, which shall be either by mail or hand-delivered. Electronic submissions shall not be permitted.
7. Bids shall be opened in public in one (1) location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (The bidding document shall indicate the date, time, and place of bid opening).

8. Evaluation of bids shall 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 document.
9. Except in cases of *force majeure* or exceptional situations beyond the control of the implementing agency, the extension of bid validity shall not be allowed without the prior written agreement of the Association: (i) for the first request for extension if it is beyond four (4) weeks; and (ii) for all subsequent requests for extension irrespective of the period.
10. Contracts shall be awarded to the lowest evaluated responsive bidder.
11. Bids shall not be rejected merely on the basis of a comparison with an official estimate, without the prior written agreement of the Association.
12. Except with the prior written agreement of the Association, there shall be no negotiation of price with bidders, even with the lowest evaluated bidder.
13. Re-invitation of bids shall not be carried out without the prior written agreement of the Association.
14. All bidders and contractors / suppliers shall provide bid and performance securities as required in the bidding and contract documents.
15. A bidder's bid security shall apply only to the specific bid, and a contractor's performance security shall apply only to the specific contract, under which such security is furnished.
16. Bids shall not be invited on the basis of a percentage premium or discount over the estimated cost without the prior written agreement of the Association.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15, commencing September 15, 2020 to and including March 15, 2030	5

* The percentage represents 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. “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, with the modifications set forth in Section III of this Appendix.
2. “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 and May 2010.
3. “Development Finance Department” means the department of the Ministry of Finance and Planning (as hereinafter defined), responsible for development finance, or any successor thereto.
4. “Environmental Assessment” means the Recipient’s assessment, including an Environmental Management Plan (as hereinafter defined) and referred to in Section I.F.3 of Schedule 2 to this Agreement, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such assessment.
5. “Environmental Risk Management Framework” means the Recipient’s framework, dated June 2010, agreed with the Association, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, that have been identified by the Recipient to eliminate any adverse environmental impacts of Project activities, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such framework.
6. “Environmental Management Plan” means the Recipient’s plan, part of the Environmental Assessment and referred to in Section I.F.2 of Schedule 2 to this Agreement, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such plan.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.

8. “Involuntary Resettlement” means: (a) the involuntary taking of land, resulting in (i) relocation, or loss of shelter; (ii) loss of assets, or access to assets; or (iii) loss of income sources, or means of livelihood, whether or not the affected person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of the affected person.
9. “Line of Credit” means a line of credit made or proposed to be made by the Recipient out of the proceeds of the Financing to a Participating Financial Institution (as hereinafter defined) to finance Subproject Loans.
10. “Line of Credit Agreement” means an agreement between the Recipient and a Participating Financial Institution, setting forth the terms and conditions governing a Line of Credit.
11. “Ministry of Finance and Planning” means the Recipient’s ministry responsible for finance and planning, or any successor thereto.
12. “Operating Costs” means incremental operating costs under the Project, based on the annual work plans and budgets referred to in Section I.G (a) of Schedule 2 to this Agreement as approved by the Association, and incurred by the Recipient for purposes of Project management, implementation, and monitoring and evaluation on account of utilities and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, office space rental and related operational expenses, building and equipment maintenance, public awareness-related media expenses (including workshops, printing, and communications), domestic and international travel and subsistence, the fees payable to the Risk Sharing Facility Agent (as hereinafter defined) for purposes of management of Risk Sharing Facilities, and salaries of contractual and temporary staff, but excluding salaries, fees, and bonuses of members of the Recipient’s civil service.
13. “Participating Financial Institution” means, individually, a financial institution, established and operating pursuant to the laws of the Recipient, which has met the eligibility criteria specified in the Project Operations Manual (as hereinafter defined), the Risk Sharing Facility Operations Manual (as hereinafter defined), and as a result has received a Line of Credit, or a Risk Sharing Facility (as hereinafter defined); and “Participating Financial Institutions” means, collectively, more than one (1) Participating Financial Institution.
14. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006 and May 2010.

15. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated August 9, 2010 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.
16. “Project Financial Management Manual” means the Recipient’s manual, dated August 2010 and part of the Project Operations Manual (as hereinafter defined), agreed with the Association and setting out financial management and disbursement arrangements for purposes of Project implementation, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.
17. “Project Operations Manual” means the Recipient’s manual, dated August 2010, agreed with the Association and setting out implementation, organizational, administrative, monitoring and evaluation, environmental and social monitoring and mitigation, and procurement arrangements for purposes of Project implementation, and including the Project Financial Management Manual, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.
18. “Project Implementation Unit” means the Recipient’s entity, under the Development Finance Department, established and operating pursuant to the Recipient’s letter of April 29, 2010 to the Association.
19. “Risk Sharing Facility” means, individually, a facility established for purposes of the sharing of risk over a portfolio of small and medium enterprise Subproject Loans originated and held by a Participating Financial Institution; and “Risk Sharing Facilities” means, collectively, more than one (1) Risk Sharing Facility.
20. “Risk Sharing Facility Account” means, in respect of Risk Sharing Facilities, the relevant dedicated account in which amounts relating thereto disbursed pursuant to Annex 1 to Schedule 2 to this Agreement, together with any interest and fees earned by the Recipient in respect of such Facilities, shall be held pending payment of any claims under such Facilities.
21. “Risk Sharing Facility Agent” means the entity acting as facility agent on behalf of the Recipient for purposes of the management of the Risk Sharing Facilities.
22. “Risk Sharing Facility Agreement” means an agreement between the Risk Sharing Facility Agent, acting as facility agent on behalf of the Recipient, and a Participating Financial Institution, setting forth the terms and conditions governing a Risk Sharing

Facility; and “Risk Sharing Facility Agreements” means, collectively, more than one (1) Risk Sharing Facility Agreement.

23. “Risk Sharing Facility Operations Manual” means the Recipient’s manual, referred to in Section I.D.1 of Schedule 2 to this Agreement, as the same may be amended from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such manual.
24. “Risk Sharing Facility Service Agreement” means the agreement referred to in Section I.B.1 of Schedule 2 to this Agreement pursuant to which the Recipient shall appoint the Risk Sharing Facility Agent to act as facility agent on behalf of the Recipient for purposes of the management of Risk Sharing Facilities, as the same may be modified from time to time with the prior written agreement of the Association.
25. “Social Risk Management Framework” means the Recipient’s framework, dated June 2010, agreed with the Association, setting out mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, that have been identified by the Recipient to eliminate any adverse social impacts of Project activities, offset them, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such framework.
26. “Social Management Plan” means the Recipient’s plan, referred to in Section I.F.3 of Schedule 2 to this Agreement, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such plan.
27. “Sri Lankan Rupee” means the currency of the Recipient.
28. “Steering Committee” means the Recipient’s entity, established and operating pursuant to the Recipient’s letter of June 14, 2010 to the Association.
29. “Subproject” means a specific activity carried out under Part 1 of the Project, financed or proposed to be financed through a Subproject Loan (as hereinafter defined).
30. “Subproject Loan” means a loan made or proposed to be made by a Participating Financial Institution out of the proceeds of the Financing to a Subproject Loan Beneficiary to finance a Subproject.

31. “Subproject Loan Agreement” means an agreement between a Participating Financial Institution and a Subproject Loan Beneficiary, setting forth the terms and conditions governing a Subproject Loan.
32. “Subproject Loan Beneficiary” means an enterprise to which or for whose benefit a Subproject Loan is made or proposed to be made.
33. “Training” means the cost of training financed under the Project, based on the annual work plans and budgets referred to in Section I.G (a) of Schedule 2 to this Agreement as approved by the Association, and attributable to seminars, workshops, and study tours, along with the cost of travel and subsistence for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“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 un-withdrawn amount of the advance.”

2. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of: (i) a determination by the Association or the Bank that the Project Implementing Entity

has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank; and / or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
 - (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

Section III. Modifications to the Anti-Corruption Guidelines

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:
 - “... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”
2. Section 11(a) is modified to read as follows:
 - “... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a

sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”
