
CREDIT NUMBER 7625-LK

Financing Agreement

**(Second Resilience, Stability and Economic Turnaround Development Policy
Financing)**

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 the following credits, which are deemed as Concessional Financing for purposes of the General Conditions, in the following amounts a credit in an amount equivalent to one hundred fifty million six hundred thousand Special Drawing Rights (SDR 150,600,000) (variously, “Credit” and “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Service Charge is three-fourths of one percent (3/4 of 1%) per annum on the Withdrawn Credit Balance.
- 2.04. The Interest Charge is one and a quarter percent (1.25%) per annum on the Withdrawn Credit Balance.
- 2.05. The Payment Dates are May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedules set forth in Schedule 2 to this Agreement.

- 2.07. The Payment Currency is Dollar.
- 2.08. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:
- A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consist of the following:
- The event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consist of the following:

The Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

- 5.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 5.03. For purposes of Section 10.05(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 Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Department of External Resources
The Secretariat
Colombo 1, Sri Lanka; and

(b) the Recipient's Electronic Address is:

Telex:	Facsimile:	E-mail:
94 11 2484693	94 11 2447633	dg@erd.gov.lk
	info@erd.gov.lk	

6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

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

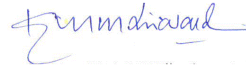
(b) the Association's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423 (MCI)	1-202-477-6391	infosrilanka@worldbank.org

AGREED as of the Signature Date.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By



Authorized Representative

Name: K. M. M. Siriwardana

Title: Secretary to the Treasury

Date: october 7, 2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: David N. Sislen

Title: Country Director, Maldives, Nepal, and Sri Lanka

Date: october 7, 2024

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. **Actions Taken under the Program.** The actions taken by the Recipient under the Program include the following:

Pillar 1: Improving Economic Governance

1. To improve debt management, Sri Lanka has enacted a new Public Debt Management (PDM) law, as evidenced by publication in the Official Gazette of the certified Public Debt Management Act No. 33 of 2024.
2. To strengthen governance of tax administration and its enforcement capability:
 - (i) MoF has specified the type, scope, frequency and manner of 3rd party data to be shared by the relevant counterparts under the Inland Revenue Act as evidenced by publication in the Official Gazette No. 2376/25-2024 of the regulation issued by MoF and letter dated July 2, 2024, issued from the Secretary General of Parliament to the Presidential Secretariat confirming its approval;
 - (ii) IRD has introduced risk management guidelines on categorization of risks associated to tax administration as evidenced by the issuance by the IRD Commissioner General of the Risk Management Guide-2023; and
 - (iii) MoF has issued a Tax Expenditures Statement (TES) estimating revenue foregone for all the major taxes, as evidenced by publication of the TES dated March 31, 2024, on the MoF website.
3. To reduce systemic risks, strengthen financial sector stability, and enhance the enabling environment for corporate non-performing loan (NPL) resolution CBSL has stipulated:
 - (i) tightened prudential limits for the maximum exposures that banks can have vis-à-vis single borrowers and to a group of connected borrowers, including SOEs, as evidenced by CBSL Directive No. 01 of 2024 (“*Large Exposures of Licensed Banks*”) dated March 25, 2024, and published on the CBSL’s website; and
 - (ii) enhanced requirements for banks when reviving distressed but viable business and a standardized workout process in accordance with international best practices as evidenced by CBSL Circular

No. 02 of 2024 (“*Guidelines for the Establishment of Business Revival Units in Licensed Banks*”) dated March 28, 2024, and published on CBSL’s website.

4. To enhance banking sector stability and performance, Sri Lanka has initiated the restructuring process for state-owned Bank of Ceylon (BOC) and People’s Bank (PB) as evidenced by Cabinet Paper No. 24/0695/604/078 approving improved governance arrangements and strategic direction for both banks.

Pillar II: Enhancing Growth and Competitiveness

5. To ensure a more effective, efficient and financially and commercially sustainable power sector, Sri Lanka has enacted a new Electricity Act, as evidenced by publication in the Official Gazette of the certified Sri Lanka Electricity Act No. 36 of 2024.
6. To increase access to imported inputs and capital goods and encourage export orientation, Sri Lanka has through MoF, approved a National Tariff Policy (NTP) that commits to a predictable path of reduction of import duty protection over a four-year period as evidenced by minutes of the meeting of the Cabinet Paper No. 24/1072/604/114 approving the NTP.
7. To expand access to affordable broadband services, facilitate private capital and develop competitive markets, Sri Lanka has:
 - (i) enacted amendments to the Sri Lanka Telecommunications Act No. 25 as evidenced by publication in the Official Gazette of the certified Sri Lanka Telecommunications (Amendment) Act No.39 of 2024; and
 - (ii) issued implementing regulations for the adoption of a sector specific competition regulation framework as evidenced by Rules made by the TRCSL and published in the Official Gazette.

Pillar III: Protecting the Poor and Vulnerable

8. To ensure increased impact and sustainability of the social protection system, Sri Lanka has issued regulations authorizing implementation of the periodic recertification of WBPS beneficiaries as evidenced by an amendment to the Welfare Benefit Payment (Selection of Persons Eligible to Receive Payments) Regulations No. 1 of 2022 issued by the Minister of Finance and published in Extra Ordinary Gazette No. 2382/02 dated April 29, 2024, and letter dated June 7, 2024, issued by the Secretary General of

Parliament to the Presidential Secretariat confirming approval by Parliament of such amendment.

9. To reduce legal discrimination on the grounds of gender – including gender discrimination in the labor market – and enable the enforcement of Sri Lanka’s obligations under the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW), Sri Lanka has enacted the Women Empowerment (WE) Act as evidenced by publication in the Official Gazette of the certified Women Empowerment Act, No. 37 of 2024.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of Credit Allocated (expressed in SDR)
Single Withdrawal Tranche	150,600,000
TOTAL AMOUNT	150,600,000

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. Deposit of Financing Amounts.

The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03(a) of the General Conditions; (b) the details of the account to which the Sri Lanka Rupee equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and

disbursement of the account referred to in Section 2.03(a) of the General Conditions.

E. Closing Date. The Closing Date is September 30, 2025.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
commencing November 15, 2029 to and including May 15, 2049	1.65%
commencing November 15, 2049 to and including May 15, 2054	3.40%

* 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 3.05(b) of the General Conditions.

APPENDIX

Section I. Definitions

1. “Cabinet” means the Recipient’s Cabinet of Ministers as stipulated in Article 43 of the Recipient’s Constitution.
2. “CBSL” means the Central Bank of Sri Lanka, established under Section 5 of the Recipient’s Monetary Law Act (as amended), or any successor thereto.
3. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
4. “IRD” means the Recipient’s Inland Revenue Department, or any successor thereto.
5. “MoF” or “Ministry of Finance” means the Recipient’s Ministry of Finance, Economic Development, Policy Formulation, Planning and Tourism, or any successor thereto.
6. “Official Gazette” means the gazette of the Democratic Socialist Republic of Sri Lanka.
7. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated August 2, 2024, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
8. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
9. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
10. “SOE” means a state-owned enterprise, as defined in the Public Financial Management Act.
11. “TRCSL” means the Telecommunications Regulatory Commission of Sri Lanka.

12. "WBPS" means welfare benefit payment scheme.