

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3673-1-CE

Financing Agreement

**(Additional Financing for Renewable Energy for Rural Economic
Development Project)**

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Public Disclosure Authorized

Dated January 9, 2008



FINANCING AGREEMENT

AGREEMENT dated January 9, 2008, entered into between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II – FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty-six million three hundred thousand Special Drawing Rights (SDR 26,300,000) (variously, “Credit” and “Financing”) to assist in financing project activities 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15 and December 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 United States dollar.

ARTICLE III – PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following:

The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following:

The event specified in Section 4.01 of this Agreement occurs.

ARTICLE V – EFFECTIVENESS; TERMINATION

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

The Project Administration Agreement-Additional Financing under this Project has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the said Project Administration Agreement-Additional Financing duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

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

6.02. 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 11 244 7633 |

6.03. The Association's Address is:

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

| | | |
|-----------------------------|--------------|----------------|
| Cable: | Telex: | Facsimile: |
| INDEVAS Washington, D.C. | 248423 (MCI) | 1-202-477-6391 |

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By

/s/ Punchi Bandara Jayasundera
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to support the Recipient in: (i) improving rural quality of life and prospects for income generation by providing off-grid electricity to remote rural communities; and (ii) promoting private sector power generation for the grid from renewable energy resources. The Project will support private sector and community-based development models, and help develop initiatives for productive use of electricity to increase rural household incomes and improve the delivery of rural social services, such as health and education.

The Project consists of the following activities, subject to any modifications that the Recipient and the Association may agree upon from time to time to achieve the objectives of the Project:

Finance for Investment Projects

Financial assistance for Investment Enterprises to carry out Investment Projects through Sub-loans.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Administration Agreement-Additional Financing

The Recipient shall exercise its rights under the Project Administration Agreement-Additional Financing 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 the Project Administration Agreement-Additional Financing or any of its provisions.

B. Safeguards

The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the provisions of the Environmental and Social Assessment Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall cause the Project Implementing Entity to 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 the provisions of Part A.1 of Section II of the Schedule to the Project Agreement.
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 six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

The Recipient shall maintain or cause the Project Implementing Entity to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions and in accordance with the provisions of Part B of Section II of the Schedule to the Project Agreement.

Section III. Procurement

All goods, works and services required for the Investment projects and to be financed out of the proceeds of the Financing, shall be procured in accordance

with the provisions in Section I of the Procurement Guidelines, Sections I and IV of the Consultant Guidelines and Section III of the Schedule to the Project Agreement, including the provisions of the Procurement Plan.

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 category of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the said Category:

| Category | Amount of the Additional Credit Allocated (Expressed in SDR Equivalent) | % of Expenditures to be Financed |
|---------------------------------------------------------------|--------------------------------------------------------------------------------|--------------------------------------------------|
| Sub-loans under the Project (finance for Investment Projects) | 26,300,000 | 80% of amounts disbursed in respect of Sub-loans |
| TOTAL | 26,300,000 | |

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2011.

SCHEDULE 3

Repayment Schedule

| Date Payment Due | Principal Amount of the Credit repayable (expressed as a percentage)* |
|-----------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| On each June 15 and December 15, commencing June 15, 2017 to and including December 15, 2026. | 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. “Administrative Unit” means the administrative unit established by DFCC Bank, which is responsible for implementing the Original Project and this Project, in accordance with the terms and conditions of the Original Project Administration Agreement and the Project Administration Agreement-Additional Financing.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004, and revised in October 2006.
5. “Development Credit Agreement” means the agreement dated July 12, 2002, between the Recipient and the Association to provide the Recipient with a credit in an amount in various currencies equivalent to fifty-nine million three hundred thousand Special Drawing Rights (SDR 59,300,000) to assist in financing the Renewable Energy for Rural Economic Development Project.
6. “Eligibility Criteria” means the Recipient’s list of criteria, acceptable to the Association, to determine whether an entity qualifies to be a Participating Credit Institution for the purposes of this Project.
7. “Environment and Social Assessment Framework” means Recipient’s framework document dated February 20, 2002, and any amendments to such document, satisfactory to the Association, that shall: (i) enable the Recipient to assess, among other things, the Project’s environmental and social impacts; and (ii) where applicable, govern the preparation of environmental management plans, resettlement and rehabilitation plans, indigenous peoples development plans and other appropriate mechanisms, satisfactory to the Association, required to mitigate and monitor any adverse impacts from carrying out the Project.
8. “Fiscal Year” means the Fiscal Year of the Recipient beginning on January 1 of a calendar year and ending on December 31 of the calendar year.
9. “Free Limit Sub-loan” means any Sub-loan for an Investment Project in an amount not exceeding \$1,000,000.

10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
11. “Investment Enterprise” means an entity or household that receives a Sub-loan for the purpose of carrying out an Investment Project.
12. “Investment Project” means any of the following renewable energy or energy conservation projects that qualify under the Operating Guidelines for a Sub-loan:
 - (i) grid-connected hydro, wind and biomass energy projects;
 - (ii) solar photo voltaic projects;
 - (iii) community-based wind, hydro and biomass energy projects;
 - (iv) energy efficiency, conservation and demand-side management projects;
and
 - (v) other eligible renewable energy projects that satisfy the Operating Guidelines.
13. “Operating Guidelines” means the Recipient’s operating guidelines dated May 10, 2002, for implementing the Original Project and this Project, satisfactory and acceptable to the Association, including any amendments made to these guidelines with the Association’s agreement.
14. “Original Project” means the project described in Schedule 2 to the Development Credit Agreement entered into by the Recipient and the Association, which Agreement is dated July 12, 2002, to assist the Recipient in financing the Renewable Energy for Rural Economic Development Project.
15. “Original Project Administration Agreement” means the agreement entered into in pursuance of the Development Credit Agreement between the Recipient and the Project Implementing Entity for implementing the Original Project, including all schedules, supplemental agreements and amendments made from time to time, approved by the Association.
16. “Participation Agreement-Additional Financing” means a participation agreement made pursuant to this Financing Agreement, in form and substance acceptable to the Association, to be entered between the Recipient and a Participating Credit Institution, relating among other things, to Sub-loans under this Project.
17. “Participating Credit Institution” means any financial institution established and operating in accordance with the laws of the Recipient, that satisfies the Eligibility Criteria to participate in the Project and executes a Participation Agreement-Additional Financing for this purpose.

18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
19. “Project Administration Agreement-Additional Financing” means the agreement to be entered into between the Recipient and the Project Implementing Entity pursuant to Part A of Section I of Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Project Administration Agreement-Additional Financing.
20. “Project Agreement” means the agreement between the Association and the Project Implementing Entity of even date herewith, as the same may be amended from time to time and such term includes all schedules and agreements supplemental to the said Project Agreement.
21. “Project Implementing Entity” means DFCC Bank, a body corporate established under the Development Finance Corporation of Ceylon Act No. 35 of 1955, as amended, and any successor entity to DFCC Bank recognized by the Recipient in accordance with the terms of the Project Administration Agreement-Additional Financing.
22. “Project Implementation Plan” means the Recipient’s project implementation plan, dated May 10, 2002, approved by the Association, containing, among other things, financial projections or forecasts for the Original Project, details regarding the procurement, format and content of project financial reports, monitoring and performance indicators and procedures to be used for implementation of the Original Project, and shall include any accompanying schedules or exhibits and any amendments or updates made, from time to time, by the Recipient or DFCC Bank with the Association’s agreement.
23. “Sub-financing Agreement” means an agreement to be entered into between a Participating Credit Institution and an Investment Enterprise pursuant to Part C.2b(i) of Section I of the Schedule to the Project Agreement, as the same may be amended from time to time, and such term includes all schedules to the Sub-financing Agreement.
24. “Sub-loan” means a loan or lease financing made, or proposed to be made, to an Investment Enterprise by a Participating Credit Institution, out of the Credit proceeds, for an Investment Project, in accordance with the Operating Guidelines, and the Participation Agreement-Additional Financing between the Participating Credit Institution and the Recipient and, unless the context otherwise requires, the term “Sub-loan” includes a Free-Limit Sub-loan.