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**CONFORMED COPY**

**CREDIT NUMBER 4686-LK**

# **Financing Agreement**

**(Higher Education for the Twenty-First Century Project)**

**between**

**DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 26, 2010**

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**CREDIT NUMBER 4686-LK**

**FINANCING AGREEMENT**

AGREEMENT dated August 26, 2010, entered into between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“the Recipient”) and the 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 twenty five million six hundred thousand Special Drawing Rights (SDR 25,600,000) (“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 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and November 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MHE 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; TERMINATION**

- 4.01. The Effectiveness Deadline is the date Ninety (90) days after the date of this Agreement.
- 4.02. For purposes of Section 8.05(B) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE V— REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is its Secretary, 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 2449823 or  
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)	1-202-477-6391

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ 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 capacity of the Recipient's higher education system, institutions and human resources to deliver quality higher education services in line with equitable social and economic development needs.

The Project consists of the following parts:

#### **Part 1: Institutionalizing Norms for the Higher Education Sector**

##### **1.1: Development of a Sri Lanka Qualification Framework**

Support to the Recipient in the development and implementation of a SLQF covering both state and non-state higher education and tertiary level training institutions, through the provision of technical assistance, training and equipment.

##### **1.2: Establishment of a Quality Assurance System for the Higher Education Sector**

Support to the Recipient in the establishment of a quality assurance system for the higher education sector through the provision of technical assistance, training and equipment.

#### **Part 2: Promoting Relevance and Quality of Teaching and Learning**

##### **2.1: University Development Grants**

Provision of university development grants to assist universities to enhance the social and economic relevance of higher education, particularly in areas identified by employers as of prime importance.

##### **2.2: Quality and Innovation Grants**

Provision of quality and innovation grants to assist university programs and departments of study to enhance the economic relevance of higher education, particularly in areas identified by employers as of prime importance.

### **Part 3: Strengthening Alternative Higher Education**

#### **3.1: Modernization of SLIATE**

Support to the Recipient in the introduction of modern methods of curriculum delivery, especially through greater use of Information and Communications Technology oriented to the labor market needs of SLIATE graduates, and modernization of learning environments of ATIs, through the provision of equipment and goods, refurbishment of facilities, technical assistance and training.

#### **3.2: Promoting Regional Equity of Access to Alternative Higher Education**

- (a) Establishment of three new Advanced Technological Institutes in Vavuniya, Ratnapura and Tangalle, respectively, including construction of facilities and acquisition of equipment and furniture.
- (b) Support to the SLIATE to establish a leadership and quality development center to facilitate leadership and quality development initiatives by SLIATE.

### **Part 4: Human Resource Development, Monitoring and Evaluation, Studies, Coordination and Communication**

#### **4.1: Human Resource Development**

- (a) Implementation of a program to strengthen the leadership and management capacity of managerial staff in higher education institutions.
- (b) strengthening the quality of staff of the higher education sector through provision of suitable postgraduate and relevant training.

#### **4.2: Monitoring and Evaluation, Studies, Coordination and Communication**

- a) Project monitoring and evaluation.
- b) Establishment and further development of a higher education management information system.
- c) Carrying out of policy studies, coordination and communication.

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

1. For the purposes of Project oversight, the Recipient, through MHE, shall maintain a Project steering committee having composition and terms of reference acceptable to the Association for the duration of the Project.
2. The MHE shall be responsible for Project implementation at the National level with the support of the UGC and SLIATE.
3. For purposes of coordinating and facilitating Project activities at the national level, the Recipient shall maintain the Policy Planning and Development Unit within MHE with staff and terms of reference satisfactory to the Association.
4. Universities shall be responsible for Project implementation at the institutional level for Part 2 of the Project. They shall coordinate and facilitate Project activities at the institutional level through their operations technical secretariats.

**B. Implementation Arrangements**

1. The Recipient shall implement the Project in accordance with the Operations Manual and the Environmental Assessment and Management Framework, and in coordination and collaboration with the UGC and the SLIATE.
2. The Recipient shall prepare and implement, in a manner satisfactory to the Association, any environmental management plans required under the Environmental Assessment and Management Framework for purposes of carrying out activities under the Project.

**C. Anti-Corruption**

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

**D. Sub-projects**

1. For the purposes of Part 2 of the Project, the Recipient shall make Grants available to Beneficiaries for the carrying out of Sub-Projects in accordance with eligibility criteria and procedures acceptable to the Association and set out in the Operations Manual. In the event that any provision of the Operations Manual is

inconsistent with the provisions of this Agreement, the provisions of this Agreement shall prevail.

2. The Recipient shall make each Grant under a Performance Contract entered into with a Beneficiary on terms and conditions approved by the Association, which shall include the following:
  - (a) The Grant shall be denominated in Sri Lankan Rupees.
  - (b) To be eligible to receive Grants, Beneficiaries shall submit action plans for Sub-Projects to: (a) improve the employability of students, especially those in Arts, Commerce and General Science; (b) provide quality assurance for external degree programs, where universities have such programs; and (c) rebuild social capital in the universities.
  - (c) All Sub-Projects shall be subject to quality assurance reviews at the institutional level with respect to university development grants under Part 2.1 of the Project and at the program level with respect to Grants under Part 2.2 of the Project.
  - (d) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiary's failure to perform any of its obligations under the Grant Agreement; and (ii) require each Beneficiary to: (A) carry out its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Grant in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the

Recipient and the Association; (F) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each Performance Contract 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 any Sub-financing Agreement or any of its provisions.

**E. Safeguards**

1. The Recipient shall ensure that the Project shall be implemented on publicly-owned land, using exclusively land free from squatters, encroachments, or other encumbrances and shall not involve any land acquisition. The publicly-owned nature of such land shall be adequately documented in a manner satisfactory to the Association.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

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 in Annex 1 to this Schedule. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the

Financial Statements shall cover the period of one (1) fiscal year of the Recipient. 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.

3. The Recipient shall, not later than six months after the Effective Date or such later date as the Association shall determine, contract with an internal audit firm having qualifications and terms of reference acceptable to the Association.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b><u>Procurement Method</u></b>
(a) National Competitive Bidding, subject to the additional procedures set out in Annex 2 to this Schedule
(b) Shopping
(c) Direct Contracting

**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:

(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) Individual Consultants

**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 works estimated to cost the equivalent of more than \$2,000,000 per contract;
- (b) the first contract for works to be awarded by each Implementing Agency on the basis of national competitive bidding, regardless of the value;
- (c) each contract for goods estimated to cost the equivalent of more than \$300,000 per contract;
- (d) each contract for books, software and other copyrighted materials procured on the basis of direct contracting and exceeding \$1,000 in value;
- (e) the first contract for goods to be awarded by each Implementing Agency (MHE and universities), on the basis of national competitive bidding regardless of the value;
- (f) each consultant’s contract estimated to cost above \$200,000 per contract for selection of firms;

- (g) the first consultant’s contract to be awarded by each Implementing Agency on the basis of selection based on the consultant’s qualification, regardless of the value;
- (h) all contracts awarded on the basis of Single Source Selection method;
- (i) each contract for individual consultants estimated to cost above \$100,000; and
- (j) all contracts for individual consultants awarded on a Sole-Source basis.

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:

<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, works, consultants’ services, Incremental Operating Costs, training and workshops and Grants	25,600,000	100%
<b>TOTAL AMOUNT</b>	<b>25,600,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2016.

**Annex 1  
to  
Schedule 2**

**Project Performance Indicators**

The indicators referred to in Section II.A of Schedule 2 are as follows:

- Higher education institutions and programs classified and operating within the SLQF.
- Proportion of beneficiary students completing the specified English language skills certification programs.
- Proportion of beneficiary students completing the specified IT skills certification programs.
- Increased enrolment rate in SLIATE.

**Annex 2**  
**to**  
**Schedule 2**

**National Competitive Bidding**

In order to ensure economy, efficiency, transparency and broad consistency with the provisions of the Procurement Guidelines, goods, works, and non consultant services procured under the National Competitive Bidding (NCB) method shall be subject to the following requirements:

- Only the Sri Lanka-specific Standard Bidding Documents satisfactory to the Association (and as amended from time to time and agreed with the Association) will be used.
- Invitations for bids will be advertised in at least one widely circulated national daily newspaper, and bidding documents will be made available at least twenty-one (21) days before, and issued up to, the deadline for submission of bids.
- Bidding documents will be issued by mail or in person to all who are willing to pay the required fee.
- 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.
- Qualification criteria will 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.
- 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.
- Bids will be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding document (the bidding document will indicate the date, time and place of bid opening).
- 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 document.
- 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: (i) for the first request for extension if it is beyond four weeks, and (ii) for all subsequent requests for extension irrespective of the period.

- Contracts will be awarded to the lowest evaluated responsive bidder.
- Bids will not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association.
- Except with the prior concurrence of the Association, there will be no negotiation of price with bidders, even with the lowest evaluated bidder.
- Re-invitation of bids will not be carried out without the prior concurrence of the Association.
- All bidders and contractors/suppliers shall provide bid and performance securities as required in the bidding and contract documents.
- 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 they are furnished.
- Bids will not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association.

**SCHEDULE 3****Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May 15 and November 15, commencing May 15, 2020, to and including November 15, 2029.	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. “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.
2. “ATT” means Advanced Technological Institutes.
3. “Beneficiary” means a university which is eligible to receive a Grant under Part 2.1 of the Project, or whose study program, faculty or department of study which is eligible to receive a Grant under Part 2.2 of the Project.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “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.
6. “Environmental Assessment and Management Framework” means the Recipient’s framework adopted on December 11, 2009 and publicly disclosed by the Recipient and approved by the Association.
7. “Environmental Management Plan” means any of the plans to be prepared in accordance with the Environmental Assessment and Management Framework.
8. “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.
9. “Grant” means a grant to promote the social and economic relevance of higher education, particularly in areas identified by employers as of prime importance, including university development grants made to universities under Part 2.1 of the Project or quality and innovation grants made to study programs, faculties or departments of universities under Part 2.2 of the Project.
10. “Incremental Operating Costs” means the incremental recurrent expenditures incurred on account of the Project for per diems, office supplies, vehicle rental charges (including passenger insurance), government motorcycle and vehicle operating charges (fuel, maintenance, and insurance), utilities, maintenance of office equipment, telephone and other communications charges, office rent, advertising costs for procuring goods, works and services, bank charges for the

operation of the designated account, and salaries of contract staff, but excluding salaries of officials of the Recipient's civil and public service.

11. "Implementing Agency" means MHE or any of the universities participating in the Project.
12. "MHE" means the Recipient's Ministry of Higher Education or any successor thereto.
13. "Operations Manual" means the manual adopted by the Recipient dated January 12, 2010 for the operation of the Project, as such manual may be updated from time to time with the prior written consent of the Association.
14. "Performance Contract" means a contract to be entered into between the Recipient and a Beneficiary under Part 2 of the Project, as provided for under Part D.2 of Section I to Schedule 2 to this Agreement.
15. "Policy Planning and Development Unit" means the Policy Planning and Development Unit within the Recipient's Ministry of Higher Education that is primarily responsible for coordinating and facilitating the implementation of the Project.
16. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
17. "Procurement Plan" means the Recipient's procurement plan for the Project, dated December 3, 2009 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.
18. "SLIATE" means the Sri Lanka Institute of Advanced Technological Education, or any successor thereto.
19. "SLQF" means the Sri Lanka Qualification Framework described in Part 1.1 of the Project.
20. "Sub Project" means an activity which is eligible to receive a grant under Part 2 of the Project and for which the Recipient has or intends to provide such Grant.
21. "UGC" means the University Grants Commission, a body established and operating under the Universities Act (No. 16 of 1978) (as amended from time to time) incorporated in the territory of the Recipient, or any successor thereto.

22.

**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 unwithdrawn 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 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.”

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.”

