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CREDIT NUMBER 4575-CE

Financing Agreement

(Additional Financing for Health Sector Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 14, 2009

FINANCING AGREEMENT

AGREEMENT dated August 14, 2009, entered into between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“the Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“the Association”) for the purpose of providing additional financing for activities related to 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, the Appendix to this Agreement or, where not otherwise defined, in the Original Financing Agreement (as defined 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 sixteen million three hundred thousand Special Drawing Rights (SDR 16,300,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”);
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 1 and August 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 4 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 and the Program. To this end, the Recipient shall carry out Part 2, and cause the Provincial Councils to carry out Part 1, 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 — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
 - (a) a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;
 - (b) the Program shall have been amended, waived, or abrogated in a manner that could materially or adversely affect the Project's implementation or the achievement of its objectives;
 - (c) any of the Provincial Councils shall have failed to perform any of their respective obligations under the Implementation Agreements;
 - (d) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that any of the Provincial Councils will be able to perform any of their respective obligations under the Implementation Agreements; and
 - (e) the Operational Manual shall have been amended, waived or abrogated so as to adversely affect the efficiency, economy, and transparency of various operational, implementation, and procurement procedures under this Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any of the events specified in paragraphs (b), (c), and (e) of Section 4.01 of this Agreement shall occur and shall continue for a period of thirty (30) days after notice thereof shall have been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. 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 VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative are: (a) the Secretary, Ministry of Finance and Planning; and (b) the Director General, Department of External Resources, Ministry of Finance and Planning of the Recipient.
- 6.02. The Recipient's Address is:

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

Cable address:	Telex:	Facsimile:
SECMINFIN	FINMIN 21409 FORAID 2123294-1-447633	94-112-449823

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By

/s/ Sumith Abeysinghe
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to contribute to improvements in efficiency, utilization, equity of access to, and quality of, the Recipient's public sector health services with a particular focus on district and provincial level services.

The Project consists of the following activities under the Original Project:

Part 1: Support for Provincial Health Authorities and District level health agencies in improving service delivery and outreach

Strengthening delivery of health services in remote and under-served areas by providing Provincial Health Authorities and district health teams appointed by the Provincial Health Authorities with more financial resources and enhancing their capacity for planning, management, and monitoring on the basis of approved Provincial Health Plans and District Health Plans.

Part 2: Strengthening the stewardship functions of the Central Ministry of Healthcare and Nutrition

Development and more effective use of evidence base and information systems for policy, planning, monitoring and management.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

For purposes of carrying out and coordinating the Project the Recipient shall maintain a Project Management Team having composition, staffing and terms of reference satisfactory to the Association.

B. Implementation Agreements

1. To facilitate the carrying out of Part 1 the Project, the Recipient shall make part of the proceeds of the Financing available to the Provincial Councils under Implementation Agreements between the Recipient and each Provincial Council, under terms and conditions approved by the Association, including those set forth in the Schedule 3 to this Agreement.
2. The Recipient shall exercise its rights under the Implementation Agreements 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 of the Implementation Agreements or any of their provisions.
3. The Recipient shall: (i) ensure that the Project is carried out in accordance with the provisions of the Original Financing Agreement, this Agreement, the Operational Manual, and the Waste Management Policy and Guidelines and applicable building codes; and (ii) promptly inform the Association of any changes made, or proposed to be made, to the Operational Manual or the Waste Management Policy and Guidelines.

C. Eligibility of District Sub-Programs

The eligibility of District Sub-Programs for financing from the proceeds of the Financing shall be as provided for in the Operational Manual, provided however that no proposal for a District Sub-Program shall be so eligible unless the Association shall have been satisfied with the progress made in carrying out any ongoing District Sub-Program in the District to which the proposal relates, on the basis of the monitoring indicators set out in the Operational Manual.

D. Anti-Corruption

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

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one 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 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.

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:

Procurement Method	
(a)	Shopping
(b)	National Competitive Bidding
(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.

Procurement Method	
(a)	Selection Under a Fixed Budget
(b)	Least-cost Selection
(c)	Selection Based on Consultants' Qualifications
(d)	Single Source Selection
(e)	Individual Consultants

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) Goods, consultants services, training, civil works and incremental operating costs under Part 1 of the Project for the Northern Province and the Eastern Province	8,140,000	90%
(2) Goods, consultants services, training, civil works and incremental operating costs under Part 1 of the Project for the Other Provinces	7,470,000	90%
(3) Goods, consultants services, training, civil works and incremental operating costs under Part 2 of the Project	690,000	90%
TOTAL AMOUNT	16,300,000	

For the purposes of this paragraph, the term " incremental operating costs" means 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), maintenance of office equipment, telephone and other communications charges, office rent, advertising costs for procuring goods, works and services, and bank charges for operation of designated account, and salaries of contract staff, but excluding salaries of officials of the Recipient's civil and public service.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments made prior to the date of this Agreement; and
 - (b) under Categories 1 and 2 in respect of a Province unless an Implementation Agreement, acceptable to the Association, has been executed on behalf of the Recipient and the Provincial Council in charge of such Province, and the Association has received a legal opinion satisfactory to the Association of counsel acceptable to the Association, that such Implementation Agreement has been duly authorized or ratified by the Recipient and the Provincial Councils and is legally binding upon the Recipient and the Provincial Councils in accordance with its terms.
2. The Closing Date is December 31, 2010.

SCHEDULE 3

Implementation Agreements

For the purposes of Part 1 of the Project, the Recipient shall make part of the proceeds of the Financing available to each Provincial Council for the financing of activities to be undertaken within the jurisdiction of such Provincial Council under an Implementation Agreement between the Recipient and the Provincial Council, which shall contain terms and conditions approved by the Association, including the following:

1. that the Provincial Council shall maintain its Provincial Health Authorities with staffing, organization, and functions, satisfactory to the Association and the Recipient;
2. that the Provincial Council shall: (a) at all times implement its respective portions of the Project in accordance with the Original Financing Agreement, this Agreement, the Operational Manual, the Waste Management Policy and Guidelines, and applicable building codes; and (b) promptly inform the Association of any changes made, or proposed to be made, to their respective portions of the Project or to the Operational Manual;
3. that the Provincial Council shall make available in a timely manner to the health authorities in the Districts under its jurisdiction for District Sub-Programs that shall have been approved by the Association in accordance with Paragraph 5(a) below: (a) the proceeds of the Financing; and (b) additional funds from the Recipient's own resources received by the Provincial Council from the Recipient to implement the Project which are necessary to carry out District Sub-Programs in accordance with formulas, terms, and conditions approved by the Association in consultation with the Recipient;
4. that the Provincial Council shall ensure that expenditures in a Fiscal Year for District Sub-Programs to be financed from the proceeds of the Financing shall be in addition to those regular expenditures relating to the health sector in the Districts to be financed from the Recipient's own resources;
5. that the Provincial Council shall cause the health authorities in each District within its jurisdiction to:
 - (a) prepare and submit for approval to the Association, by not later than November 30 of each Fiscal Year or such later date as the Association may agree, a District Health Plan which shall form the basis of a District Sub-Program for the following Fiscal Year and which shall detail activities to be carried out, any policy reforms and other measures to be implemented, the expenditures to be incurred, the sources of financing of such expenditures and the procurement methods to be followed;

- (b) modify and finalize the District Health Plan and the District Sub-Program for each Fiscal Year in a manner satisfactory to the Association, taking into account its comments and views on the matter;
- (c) carry out the District Sub-Program in accordance with the provisions of the Original Financing Agreement, this Agreement, the Operational Manual, the Waste Management Policy and Guidelines, any memorandum of understanding between the Provincial Council and the Recipient, and applicable building codes; and
- (d) refrain from making any material changes or amendments to an approved District Sub-Program without consulting the Association.

SCHEDULE 4

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 1 and August 1, commencing August 1, 2019, to and including February 1, 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. “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.
3. “District Health Plan” means an annual work plan for a Fiscal Year prepared for a District, which forms the basis for its District Sub-Program.
4. “District Sub-Program” means a District’s program of activities and expenditures for the health sector in a Fiscal Year that: (i) are formulated on the basis of the District Health Plan; and (ii) receive financing from the proceeds of the Financing.
5. “District” means an administrative district within a Province.
6. “Eastern Province” means the Eastern Province of the Recipient.
7. “Fiscal Year” means the Recipient’s fiscal year commencing on January 1 and ending on the following December 31.
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. “Implementation Agreement” means an agreement entered into between the Recipient and a Provincial Council regarding implementation of this Project, including any amendments made from time to time, and such term includes all schedules and agreements supplemental to an implementation agreement.
10. “Ministry of Healthcare and Nutrition” means the Recipient’s Ministry of Healthcare and Nutrition, or any successor entity thereto.
11. “Northern Province” means the Northern Province of the Recipient.
12. “Operational Manual” means the Recipient’s operation manual, satisfactory and acceptable to the Association, setting forth various operational, financial management, and procurement procedures governing the operation of the Project and the Original Project, as the same may be amended from time to time, and such term includes any schedules to the Operational Manual; provided however,

if there is a conflict between this Agreement and the Operational Manual, the provisions of this Agreement shall prevail.

13. “Original Financing Agreement” means the development grant agreement for the Health Sector Development Project between the Recipient and the Association, dated July 9, 2004, as amended from time to time in agreement between the Recipient and the Association (IDA Grant No. H095-CE).
14. “Original Project” means the Project described in the Original Financing Agreement.
15. “Other Provinces” means all the Provinces of the Recipient with the exception of the Eastern Province and the Northern Province.
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 Part 2 of the Project, dated April 15, 2005, 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. “Program” means the Recipient’s Strategic Framework for Health Development in Sri Lanka dated August 12, 2003, a comprehensive strategy for the development of the health sector.
19. “Provincial Council” means a Provincial Council of the Recipient constituted under the Provincial Councils Act (No. 42 of 1987) that is a party to an Implementation Agreement with the Recipient.
20. “Provincial Health Authorities” means the health ministries and departments, as the case may be, of any of the Recipient’s Provincial Councils;
21. “Provincial Health Plan” means an annual work plan for a Fiscal Year prepared for a Province which includes, among other things a summary of the District Health Plans for districts falling under the Province.
22. “Waste Management Policy and Guidelines” means the Recipient’s National Policy and Guidelines for Health Care Waste Management dated October 31, 2001, including 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 and other appropriate mechanisms, satisfactory to the Association, required to mitigate and monitor any adverse impacts from carrying out the Project.

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.”