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CREDIT NUMBER 4429 - CE

Financing Agreement

(Additional Financing for Road Sector Assistance Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 16, 2008

FINANCING AGREEMENT

AGREEMENT dated September 16, 2008, entered into between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“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, in the Appendix to this Agreement, or, where not elsewhere defined, in the Original Financing 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 fifty nine million six hundred thousand Special Drawing Rights (SDR 59,600,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 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 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 MOHRD and RDA 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 Event of Suspension consists of the following, that is that the Road Development Authority Act. No.73 of 1981 shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of RDA to perform any of its obligations under this Agreement.
- 4.02. The Additional Events of Acceleration consists of the following, that is that the event specified in the preceding paragraph shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Recipient.

ARTICLE V — TERMINATION

- 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 is The Secretary, Ministry of Finance and Planning, of the Recipient or any other person nominated for this purpose by the Secretary.

6.02. The Recipient's Address is:

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

Telex:	Facsimile:
FINMIN 21409	94-112-449823
FORAID21232	94-112-447633

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 in 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 objective of the Project is to lower transportation costs through sustainable delivery of an efficient national road system.

The Project consists of the following activities under Part 1 of the Original Project:

Resurfacing and improvement of approximately 597km of national roads, to be undertaken in two phases:

Phase I: Maintenance and rehabilitation of approximately 197 kilo meters of road, spread across the Central, Western, Sabaragamuwa and Southern provinces.

Phase II: Maintenance and rehabilitation of approximately 400 kilo meters of road, spread across Uva, North Central, Eastern and North Western Provinces.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

The Recipient shall carry out the Project in accordance with the Implementation Arrangements set forth in Paragraphs 1 to 11 of Schedule 4 to the Original Financing Agreement and in accordance with the following additional provisions:

A. Anti-Corruption

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

B. Other Covenants

1. The Recipient shall, by August 31 in every year during Project implementation, carry out an annual technical audit and a review of civil works & consultancy contracts in implementation, in accordance with a methodology and with content satisfactory to the Association.
2. Without limitation upon the provisions of Section 4.03 of the General Conditions, the Recipient shall provide any funds required to carry out the Project in excess of the amount of the Financing.

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 (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.
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 four (4) months after the Closing Date.

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 such 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, commencing with the fiscal year in which the first withdrawal under the Project was made. 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. **Works.** All 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 Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Works.** The following table specifies the methods of procurement, other than International Competitive Bidding and National Competitive Bidding, which may be used for works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method	
(a)	National Competitive Bidding*
(b)	Shopping
(c)	Direct Contracting
(d)	Force Account
(e)	Community Participation

* In order to ensure economy, efficiency, transparency and broad consistency with the provision of the Procurement Guidelines, the procurement of works through National Competitive Bidding shall be subject to the following requirements:

- (i) invitations to bid shall be advertised in at least one national newspaper with a wide circulation, at least twenty-one (21) days prior to the deadline for the submission of bids;
- (ii) bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (iii) there shall not be any restrictions on the means of delivery of the bids, which shall be either through post or hand delivered; electronic submissions shall not be permitted.
- (iv) 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 should be accorded to any enterprises or bodies;
- (v) qualification criteria shall be stated in the bidding documents and, if a registration process is required, a foreign firm declared as the lowest evaluated bidder shall be given a reasonable time for registering, without let or hindrance;
- (vi) bids shall be opened in public in one location, immediately after the deadline for the submission of bids, as stipulated in the bidding documents; the bidding documents should indicate the date, time and place of bid opening;
- (vii) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and within a specified period agreed with the Association, and within the bid validity period indicated in the bidding documents;
- (viii) bids shall not be rejected merely on the basis of a comparison with an official estimate, without the prior concurrence of the Association;
- (ix) contracts shall be awarded to the lowest evaluated bidders;
- (x) except with the prior concurrence of the Association, there shall be no negotiation of price with the bidders, even with the lowest evaluated bidder;
- (xi) re-invitation of bids shall not be carried out without the prior concurrence of the Association;
- (xii) all bidders/contractors shall provide a bid/performance security as required in the bidding/contract documents;

- (xiii) a bidder's bid security shall apply only to a specific bid, and a contractor's performance security shall apply only to the specific contract under which it was furnished;
- (xiv) bids shall not be invited on the basis of percentage premium or discount over the estimated cost, unless agreed with the Association; and
- (xv) unless justified by *force majeure* and/or exceptional situations beyond the control of the Recipient, extension of bid validity shall not be allowed without the prior concurrence of the Association, for: (a) the first request for extension if it is longer than four weeks; and (b) all subsequent requests for extension irrespective of the period.

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)	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

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 Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Works	59,600,000	100%
TOTAL AMOUNT	59,600,000	

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) until all withdrawals have been made under Category 1(a) in the table in Paragraph 1 of Schedule 1 to the Original Financing Agreement, and the Recipient has provided, evidence satisfactory to the Association, that it has made or will make the counterpart funds required to complete the works to be financed under said Category 1(a) available.
2. The Closing Date is September 30, 2011.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as percentage)*
On each March 15 and September 15, commencing September 15, 2018, to and including March 15, 2028	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

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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “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.
4. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, (as amended through October 15, 2006).
5. “MOHRD” means the Recipient’s Ministry of Highways and Road Development or any successor thereto.
6. “Original Financing Agreement” means the development credit agreement for a Road Sector Assistance Project between the Recipient and the Association, dated January 16, 2006, (Credit No. 4136).
7. “Original Project” means the Project described in the Original Financing Agreement.
8. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.
9. “Procurement Plan” means the Recipient’s procurement plan for the original Project, dated September 26, 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.