

# OFFICIAL DOCUMENTS

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CREDIT NUMBER 5891-LK

## Financing Agreement

(Competitiveness Transparency and Fiscal Sustainability  
Development Policy Financing)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated September 05 , 2016

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CREDIT NUMBER 5891-LK

### FINANCING AGREEMENT

Agreement dated September 05, 2016, entered into 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) 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 — CREDIT

- 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 the amount of one hundred million Dollars (\$100,000,000) ("Credit").
- 2.02. The Recipient may withdraw the proceeds of the Credit in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Front-end Fee payable by the Recipient shall be equal to one quarter of one percent ( $\frac{1}{4}$  of 1%) of the Credit amount.
- 2.04. The Commitment Charge payable by the Recipient shall be one-quarter of one percent ( $\frac{1}{4}$  of 1%) per annum on the Unwithdrawn Credit Balance.
- 2.05. The Interest Charge payable by the Recipient for each Interest Period shall be at a rate equal to three and sixty seven hundredth percent (3.67%) per annum; provided, however, that the Interest Charge payable shall in no event be less than three quarters of one percent ( $\frac{3}{4}$  of 1%) per annum.
- 2.06. The Payment Dates are March 15 and September 15 in each year.

- 2.07. The principal amount of the Credit shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. The Payment Currency is Dollar.
- 2.09. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 7 of Section II of the Appendix to this Agreement and relating to *Cooperation and Consultation*), 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 4.08 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.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely, 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 consists of the following, namely, the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) 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 consists of the following, namely, 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 date of this Agreement.
- 5.03. 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 its Secretary, Ministry of Finance.
- 6.02. The Recipient's Address is:  
Ministry of National Policy and Economic Affairs  
Department of External Resources  
The Secretariat  
Colombo 1, Sri Lanka

Telephone:

Facsimile:

94 11 2484693

94 11 2447633

94 11 2434876

94 11 2387153

- 6.03. The Association's Address is:

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

Telex:

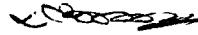
Facsimile:

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



\_\_\_\_\_  
Authorized Representative

Name: R H S Samaraturga

Title: Secretary, Ministry of Finance

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

By



\_\_\_\_\_  
Authorized Representative

Name: Idah Z. Pswarayi-Riddihough

Title: Country Director for Sri Lanka  
& Maldives

## SCHEDULE 1

### Program Actions; Availability of Credit Proceeds

#### Section I. Actions Taken under the Program

The actions taken by the Recipient under the Program include the following:

1. The Recipient has: (a) ratified the Protocol annexing the WTO Trade Facilitation Agreement into the WTO Agreement; and (b) created a national trade facilitation committee.
2. The Cabinet of Ministers has approved the establishment of one-stop-shop for foreign investors aimed at reducing the processing time for investment approval.
3. The Cabinet of Ministers has authorized the drafting of a new Secured Transactions Bill that will include provisions to facilitate the use of movable assets as collateral for bank loans, and to repeal the Secured Transactions Act No. 49 of 2009.
4. The Recipient has submitted to Parliament a Right to Information Bill with wide applicability, extensive proactive disclosure, an independent appeals process, and limited exceptions.
5. The National Audit Bill has been submitted to the Cabinet of Ministers.
6. The Cabinet of Ministers has authorized the Ministry of Finance to draft a Public Finance Bill strengthening preparation, execution and oversight of the budget, as well as oversight of public enterprises.
7. The Cabinet of Ministers has decided to submit to Parliament a proposal to repeal the Strategic Development Projects Act No. 14 of 2008.
8. The Cabinet of Ministers has approved setting up a debt management unit in the Ministry of Finance.

#### Section II. Availability of Credit Proceeds

- A. **General.** The Recipient may withdraw the proceeds of the Credit 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 Credit Amounts.** The Credit is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Credit. The allocation of the amounts of the Credit to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Credit Allocated (expressed in USD)</b>
(1) Single Withdrawal Tranche	99,750,000
(2) Front-end Fee	250,000
<b>TOTAL AMOUNT</b>	<b>100,000,000</b>

- 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. Deposits of Credit Amounts.** Except as the Association may otherwise agree:
1. All withdrawals from the Credit Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
  2. the Recipient shall ensure that upon each deposit of an amount of the Credit into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- E. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Credit shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Credit was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- F. Closing Date.** The Closing Date is September 30, 2017.

**SCHEDULE 2**

**Amortization Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)<sup>1</sup></b>
On each March 15 and September 15:	
Commencing September 15, 2024 to and including March 15, 2033	2.5%
Commencing September 15, 2033 to and including March 15, 2043	2.75%

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<sup>1</sup> The percentages represent the percentage of the principal amount of the Credit to be repaid.



**APPENDIX**

**Section I. Definitions**

1. "Auditor General" means the Recipient's auditor general or any successor thereto.
2. "Cabinet of Ministers" means the Recipient's cabinet of ministers or any successor thereto.
3. "Excluded Expenditure" means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery

897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Credit proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
  5. "Ministry of Finance" means the Recipient's ministry in charge of finance, or any successor thereto.
  6. "National Audit Bill" means the draft legislation submitted to the Cabinet of Ministers to strengthen the supreme audit institution, particularly through providing for greater administrative and financial independence.
  7. "National Trade Facilitation Committee" means the committee established by the Recipient to facilitate international trade or any successor thereto.
  8. "Parliament" means the Recipient's Parliament, or any successor thereto.
  9. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or

referred to in the letter dated June 7, 2016 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.

10. "Protocol" means the Protocol Amending the Marrakesh Agreement Establishing the World Trade Organization dated November 27, 2016.
11. "Public Finance Bill" means the draft legislation for the purpose of regulating public financial management to be submitted to Parliament.
12. "Right to Information Bill" means the draft legislation submitted to Parliament for the purpose of providing a framework for government transparency.
13. "Secured Transactions Act No. 49 of 2009" means the Recipient's law governing secured transactions.
14. "Secured Transaction Bill" means the draft legislation submitted to Parliament to replace the Secured Transaction Act 49, 2009.
15. "Single Withdrawal Tranche" means the amount of the Credit allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule I to this Agreement.
16. "Strategic Development Projects Act No 14. of 2008" means the Recipient law setting forth the procedures and regulation governing strategic development projects as amended.
17. "WTO Agreement" means the Marrakesh Agreement Establishing the World Trade Organization.
18. "WTO Trade Facilitation Agreement" means the Agreement added through the Protocol as Annex A.1 to Marrakesh Agreement Establishing the WTO Agreement.

## **Section II. Modifications to the General Conditions**

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.

3. Section 2.07 (*Refinancing Preparation Advance*) is retitled as "*Refinancing Preparation Advance; Capitalizing Front-end Fee*", amended by adding a new paragraph (b), and modified to read as follows:

"Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee*

(a) If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Bank or the Association ("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.

(b) Except as otherwise provided in the Financing Agreement, the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date and pay to itself the amount of the Front-end Fee payable pursuant to Section 3.01 (a)."

4. Section 3.01 (*Commitment Charge*) is retitled as "*Front-end Fee; Commitment Charge*", amended by adding a new paragraph (a), and modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Recipient shall pay the Association a front-end fee on the Credit amount at the rate specified in the Financing Agreement (the "Front-end Fee").

(b) The Recipient shall pay the Association a commitment charge on the Unwithdrawn Credit Balance at the rate specified in the Financing Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Financing Agreement to the respective dates on which amounts are withdrawn by the Recipient from the Credit Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."

5. Section 3.02 (*Service Charge*) is retitled as "*Interest Charge*" and modified to read as follows:

"Section 3.02. *Interest Charge*

The Recipient shall pay the Association interest on the Withdrawn Credit Balance at the rate specified in the Financing Agreement. Interest shall accrue from the respective dates on which amounts of the Credit are withdrawn and shall be payable semi-annually in arrears on each Payment Date. Interest Charges shall

be computed on the basis of a 360-day year of twelve 30-day months.”

6. Section 3.03 (*Repayment of the Credit*) is modified by deleting paragraph (b) in its entirety and amending the remaining paragraph (a) to read as follows:

“Section 3.03. *Repayment of the Credit*

The Recipient shall repay the Withdrawn Credit Balance to the Association in installments as provided in the Financing Agreement.”

7. Sections 4.01 (*Project Execution Generally*) and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
8. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 7 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
9. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 7 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

10. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 7 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

11. In the Appendix, **Definitions**, all relevant references to Sections, numbers and paragraphs are modified, as necessary, to reflect the modifications set forth in paragraphs 1 through 10 above.
12. Paragraph 21 of the Appendix (“Eligible Expenditures”) is modified to read as follows:

““Eligible Expenditure” means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

13. Paragraph 24 of the Appendix (“Financial Statements”) is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.
14. Renumbered paragraph 27 (originally paragraph 28) of the Appendix (“Financing Payment”) is modified to read as follows:

“27. “Financing Payment” means any amount payable by the Recipient to the Association pursuant to the Financing Agreement or these General Conditions, including (but not limited to) any amount of the Withdrawn Credit Balance, interest, the Front-end Fee and the Commitment Charge.”
15. A new paragraph 29 is inserted in the Appendix with the following definition of “Front-end Fee”, and the subsequent paragraphs are renumbered accordingly:

“29. “Front-end Fee” means the fee specified in the Financing Agreement for the purpose of Section 3.01 (a).”
16. A new paragraph 32 is inserted in the renumbered Appendix with the following definition of “Interest Charge”, and the subsequent paragraphs are renumbered accordingly:

“32. “Interest Charge” means the interest charge specified in the Financing Agreement for the purpose of Section 3.02.”
17. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Payment Date”) is modified by deleting the words “Service Charges” and inserting the words “Interest Charges”.
18. The term “Project” in the renumbered paragraph 40 (originally paragraph 39) of the Appendix (“Project”) is modified to read “Program”, and its definition is modified to read as follows:

““Program” means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.
19. Renumbered paragraph 50 (originally paragraph 49) of the Appendix (“Service Charge”) is deleted in its entirety, and the subsequent paragraphs are renumbered accordingly.