
CREDIT NUMBER 7354-LK

Financing Agreement

**(Resilience, Stability, and Economic Turnaround (RESET) Development Policy
Financing)**

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

CREDIT NUMBER 7354-LK

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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.A 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) apply to and form 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 a credit, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to three hundred seventy-one million two hundred thousand Special Drawing Rights (SDR 371,200,000.00) (variously, “Credit” and “Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Payment Dates are April 15 and October 15 in each year.
- 2.04. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.05. The Payment Currency is Dollar.
- 2.06. Without limitation upon the provisions of Section 5.05 of the General Conditions, 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 5.05 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 and the actions specified in Section I of Schedule 1 to this Agreement;
 - (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:
- (a) 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:
- (a) The event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS

- 5.01. The Additional Condition of Effectiveness consists of the following:
- (a) 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 Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Department of External Resources
The Secretariat
Colombo 1, Sri Lanka; and

(b) the Recipient's Electronic Address is:

Telephone:	Facsimile:	E-mail:
94 11 2484693	94 11 2447633	dg@erd.gov.lk info@erd.gov.lk

6.03. For purposes of Section 11.01 of the General Conditions:

(a) The Association's address is:

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

(b) the Association's Electronic Address is:

Telex:	Facsimile:	E-mail:
248423 (MCI)	1-202-477-6391	infosrilanka@worldbank.org

AGREED as of the Signature Date.

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By



Authorized Representative

Name: Ananda Kithsiri Seneviratne

Title: Deputy Secretary to the Treasury

Date: 28-Jun-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Faris H. Hadad-Zervos

Title: Country Director

Date: 28-Jun-2023

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

Pillar 1: **Improving Economic Governance**

1. To strengthen domestic revenue mobilization, the Recipient has:
 - (i) removed sector specific concessionary corporate income tax rates, *as evidenced by* publication in the Recipient's Official Gazette of the Inland Revenue (Amendment) Act, No. 45 of 2022, as certified by the Speaker of Parliament; and
 - (ii) increased the fuel excise duty, *as evidenced by*: (a) publication in the Recipient's Official Gazette on December 31, 2022, of the order (the "Order") issued by the Minister of Finance under the Excise (Special Provisions) Act, No. 13 of 1989; and (b) letter dated May 23, 2023, issued by the Secretary General to the Parliament to the Minister of Finance confirming approval by Parliament of such Order.
2. To strengthen governance of tax administration and its enforcement capability, the Recipient has enacted amendments to the Inland Revenue Act requiring:
 - (i) financial institutions, government procurement departments, stock exchange, registrar of companies, motor vehicle authority, and land registrar to submit taxpayer transaction information at the individual level to the IRD in a systematic and time-bound manner; and
 - (ii) non-corporate taxpayers to file their income tax returns through an electronic system (e-filing of income tax returns),

as evidenced by publication in the Recipient's Official Gazette of the Inland Revenue (Amendment) Act, No. 4 of 2023, as certified by the Speaker of Parliament.
3. To reduce systemic risks in the financial sector:
 - (i) the CBSL's Monetary Board has approved an ELA framework that articulates the CBSL's policies and operational and procedural modalities for ELA provision to liquidity-distressed but solvent banks, *as evidenced*

by a certified extract of the minutes of the meeting of the Monetary Board approving and attaching the ELA framework; and

- (ii) Cabinet has approved the establishment of a financial sector crisis management committee that sets out crisis management responsibilities and provides an institutional basis for CBSL–MoF policy coordination, *as evidenced by* minutes of the meeting of the Cabinet approving the establishment of the financial sector crisis management committee.
4. To maintain stability and confidence in the banking system, the Minister of Finance has submitted to Parliament the Banking (Special Provisions) bill aimed at strengthening the deposit insurance and problem bank resolution framework, *as evidenced by*: (a) minutes of the meeting of the Cabinet held on May 2, 2023 (Cabinet paper No 23/0832/604/086) approving the submission to Parliament of the Banking (Special Provisions) bill; and (b) “order paper” of Parliament for May 23, 2023, evidencing submission of the respective bill to Parliament.

Pillar 2: Enhancing Growth and Competitiveness

5. To improve the commercial performance, financial transparency, and private-sector participation in the SOE sector, the Recipient has:
- (i) approved the SOE Reform Policy Paper, *as evidenced by* the minutes of the meeting of the Cabinet held on May 15, 2023 (Cabinet paper No. 23/0858/604/090) approving and attaching the respective policy paper; and
 - (ii) re-assigned the operational control of selected SOEs to the Ministry of Finance, *as evidenced by* the publication in the Official Gazette of the respective transfer decision made by HE the President under Article 44 of the Sri Lankan Constitution.
6. To simplify the tariff structure, the Recipient has adopted:
- (i) order issued by the Minister of Investment Promotion under the Sri Lanka Export Development Act No. 40 of 1979 implementing the phasing out over a period of three (3) years of the Export Development Board Cess by reducing the Cess by 33 percent from April 1, 2023, *as evidenced by*: (a) the publication in the Recipient’s) Official Gazette of the relevant order; and (b) letter dated May 9, 2023, issued by the Secretary General to the Parliament to the Ministry of Finance confirming approval by Parliament of the order issued by the Minister of Investment Promotion, and;

- (ii) order issued by the Minister of Finance under Section 03 of the Ports and Airport Development Levy Act No. 18 of 2011 to phase out PAL over a period of five (5) years commencing from 2023 and exempt PAL applicable on 20 percent of tariff items as phase I from April 4, 2023, *as evidenced by*: (a) the publication in the Recipient's Official Gazette of the relevant order; and (b) letter dated May 9, 2023, issued by the Secretary General to the Parliament to the Ministry of Finance confirming approval by Parliament of the order issued by the Minister of Finance.

Pillar 3: Protecting the Poor and Vulnerable

7. To enhance social protection, the Recipient has:

- (i) adopted the FY23 Budget for a new welfare benefit payment scheme targeted at low-income and vulnerable households in the amount of LKR 187 billion, *as evidenced by*: (a) Appropriations Act, No. 43 of 2022; (b) minutes of the meeting of the Cabinet held on 2023.01.16 (Cabinet paper No. 23/0101/604/008); and (c) letter dated May 9, 2023 (reference BD/CBP/02/01/02/2023) from the Director General of National Budget to the Secretary to the President confirming allocated budgetary provisions; and
- (ii) issued a Gazette notification by the Minister of Finance under Article 9 of the Welfare Benefit Act No. 24 of 2002 for a new welfare benefit payment scheme, *as evidenced by*: (a) the publication in the Recipient's official gazette of the notification issued by the Minister of Finance; and (b) letter dated May 12, 2023, issued by the Secretary General to the Parliament to the Ministry of Finance confirming approval by Parliament of the notification issued by the Minister of Finance.

B. Actions to be Taken Under the Program. The actions to be taken by the Recipient under the Program include the following:

- 1. To maintain stability and confidence in the banking system, the Recipient has enacted the Banking (Special Provisions) Act aimed at strengthening the deposit insurance and problem bank resolution framework, *as evidenced by* the publication in the Recipient's Official Gazette of the Banking (Special Provisions) Act as certified by the speaker of Parliament.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing 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 Financing Amounts.** The Financing is allocated in two withdrawal tranches, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (Expressed in SDR)
(1) First Withdrawal Tranche	185,600,000.00
(2) Second Withdrawal Tranche	185,600,000.00
TOTAL AMOUNT	371,200,000.00

C. Withdrawal Tranche Release Conditions.

1. No withdrawal shall be made of the First 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.
2. No withdrawal shall be made of the Second Withdrawal Tranche unless the Association is satisfied, after an exchange of views, as described in Section 3.01 (a) and (b) of this Agreement, based on evidence satisfactory to the Association:
 - (a) with the progress achieved by the Recipient in carrying out the Program;
 - (b) that the macroeconomic policy framework of the Recipient is adequate; and
 - (c) that the actions described in Part B of Section I of this Schedule have been taken.

If, after this exchange of views, the Association is not so satisfied, it may give notice to the Recipient to that effect and, if within ninety (90) days after the notice, the Recipient has not taken steps satisfactory to the Association, with respect to paragraphs (a), (b) and (c) above, then the Association may, by notice to the Recipient, cancel all or any part of the Unwithdrawn Financing Balance.

D. Deposit of Financing Amounts.

1. The Recipient, within thirty (30) days after the withdrawal of each of the First Withdrawal Tranche and Second Withdrawal Tranche from the Financing Account, shall report to the Association: (a) the exact sum received into the account referred to in Section 2.03 (a) of the General Conditions; (b) the details of the account to which the Sri Lankan Rupee equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the account referred to in Section 2.03 (a) of the General Conditions.

E. Closing Date. The Closing Date is October 31, 2024.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (Expressed as a percentage)*
On each April 15 and October 15: commencing October 15, 2029, to and including October 15, 2034	8.33334%
on April 15, 2035	8.33326%

* 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 3.05 (b) of the General Conditions

APPENDIX

Definitions

1. “Cabinet” means the Recipient’s Cabinet of Ministers as stipulated in Article 43 of the Recipient’s Constitution.
2. “CBSL” means the Central Bank of Sri Lanka, established under Section 5 of the Recipient’s Monetary Law Act (as amended), or any successor thereto.
3. “Cess” means an ad valorem tax on imports.
4. “ELA” means emergency liquidity assistance.
5. “First Withdrawal Tranche” means the amount of Financing allocated to the category entitled “First Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
6. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
7. “IRD” means the Recipient’s Inland Revenue Department, or any successor thereto.
8. “MoF” or “Ministry of Finance” means the Recipient’s Ministry of Finance, Economic Stabilization and National Policies, or any successor thereto.
9. “Minister of Finance” means the Recipient’s Minister of Finance, Economic Stabilization and National Policies.
10. “PAL” means a port and airport levy, as stipulated in the Recipient’s Ports and Airports Development Levy Act, No.18 of 2011.
11. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated May 31, 2023 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 and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
12. “Second Withdrawal Tranche” means the amount of Financing allocated to the category entitled “Second Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

13. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
14. “SOE” means a state-owned enterprise, which includes any entity for which the government of Sri Lanka owns 50% or more of the shareholding and/or holds the controlling interest.