
LOAN NUMBER 2371- SRI (SF);

GRANT NUMBER 0091 - SRI (SF)

FINANCING AGREEMENT
(Special Operations)
(Education for Knowledge Society Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 18 DECEMBER 2007

FAS:SRI 39293

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 18 December 2007 between THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Sri Lanka") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) Sri Lanka has applied to ADB for a loan and a grant for the purposes of the Project described in Schedule 1 to this Financing Agreement; and

(B) ADB has agreed to provide financing by making a loan and a grant to Sri Lanka from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Sri Lanka" as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Recipient", wherever it appears in the Grant Regulations, shall be substituted by the term "Sri Lanka" as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

- (a) “CBE” means competency-based education;
- (b) “CEIEE” means center of excellence in English education;
- (c) “CELD” means Center for Education Leadership Development;
- (d) “Consulting Guidelines” means ADB’s “Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers” (2007 as amended from time to time);
- (e) “Goods” means the equipment and materials to be financed out of the proceeds of the Loan and the Grant; and including related services such as transportation, insurance, installation, commission, training, and initial maintenance, but excluding consulting services;
- (f) “grace period” refers to the period defined in Section 2.03(b) which shall be eight (8) years;
- (g) “HIV/AIDS” means Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome;
- (h) “ICT” means information and communication technology;
- (i) “Implementing Agency” or “IA” means each agency described in paragraph 2 of Schedule 5 to this Financing Agreement;
- (j) “MHE” means Sri Lanka’s Ministry of Higher Education, and includes any legal successor thereto;
- (k) “MOE” means Sri Lanka’s Ministry of Education, and includes any legal successor thereto;
- (l) “MOFP” means Sri Lanka’s Ministry of Finance and Planning, and includes any legal successor thereto;
- (m) “MVT” means Sri Lanka’s Ministry of Vocational and Technical Training, and includes any legal successor thereto;
- (n) “NCOE” means Sri Lanka’s National College of Education, and includes any legal successor thereto;
- (o) “NETS” means Sri Lanka’s National Education Testing Services, and includes any legal successor thereto;
- (p) “NIE” means Sri Lanka’s National Institute of Education, and includes any legal successor thereto;

(q) "PME" means any Provincial Ministry of Education of Sri Lanka, and includes any legal successor thereto;

(r) "PMO" means Project Management Office referred to in paragraph 4 of Schedule 5 to this Financing Agreement;

(s) "Procurement Guidelines" means ADB's "Procurement Guidelines" (2007, as amended from time to time);

(t) "Procurement Plan" means the procurement plan for the Project dated 18 October 2007 and agreed between Sri Lanka and ADB, as updated from time to time in accordance with the Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(u) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations means MOE which is responsible for the carrying out of the Project;

(v) "Project facilities" means the infrastructure, goods, equipment, material, supplies and facilities provided, rehabilitated, extended, or upgraded under the Project;

(w) "PSC" means Project Steering Committee, established in accordance with paragraph 3 of Schedule 5 to this Financing Agreement;

(x) "RRP" refers to the Report and Recommendation of the President to ADB's Board of Directors for the Project;

(y) "SBA" means school-based assessment;

(z) "SEMPII" refers to the ADB funded Secondary Education Modernization Project, for which the Loan Agreement was signed on 7 December 2004;

(aa) "SLIATE" means the Sri Lanka Institute for Advanced Technological Education, and includes any legal successor thereto;

(bb) "TC" means teacher center; and

(cc) "Works" means construction or civil works to be financed out of the proceeds of the Loan and the Grant, but excluding consulting services.

ARTICLE II
The Loan and the Grant

Section 2.01. ADB agrees to provide to Sri Lanka from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

- (a) a loan in various currencies equivalent to forty one million eight hundred forty seven thousand Special Drawing Rights (SDR 41,847,000) (the "Loan"); and
- (b) a grant in the amount of fifteen million dollars (\$15,000,000) (the "Grant").

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3A to this Financing Agreement for purposes of financing the Project expenditures under Components and Subcomponents 1(i) and 1(ii), 2(i) through to 2(viii), and 4 as further described in Schedule 1 to this Financing Agreement; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of Schedule 3B to this Financing Agreement for purposes of financing the Project expenditures under Components and Subcomponents 1(iii), 2(ix) and 3 as further described in Schedule 1 to this Financing Agreement.

Section 2.03. (a) Sri Lanka shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.05. Sri Lanka shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.06. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

ARTICLE III

Use of Proceeds of the Loan and the Grant

Section 3.01. Sri Lanka shall cause the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement.

Section 3.02. The goods and services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and Schedule 3B may be amended from time to time by agreement between Sri Lanka and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and consulting services supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2013 or, in each case, such other date as may from time to time be agreed between Sri Lanka and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, Sri Lanka shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.

Section 4.02. (a) Sri Lanka shall (i) maintain, or cause to be maintained, separate accounts for the Project, including separate accounts for the Loan and the Grant; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii)

furnish to ADB, as soon as available but in any event not later than 9 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and the Grant proceeds and compliance with the financial covenants of this Financing Agreement as well as on the use of the procedures for the Loan and Grant imprest account and statement of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) Sri Lanka shall enable ADB, upon ADB's request, to discuss Sri Lanka's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by Sri Lanka pursuant to Section 4.02(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of Sri Lanka unless Sri Lanka shall otherwise agree.

Section 4.03. Sri Lanka shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. Each of the Secretary of MOFP, Deputy Secretary to the Treasury, and Director General, External Resources Department of Sri Lanka is designated as representative of Sri Lanka for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For Sri Lanka

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

Copy: Deputy Secretary to the Treasury
Director General, External Resources Department

Cable Address:

SECMINFIN
COLOMBO

Telex Number:

21232 FORAID COLOMBO
21409 FINMIN COLOMBO

Facsimile Number:

(9411) 244-9823
(9411) 244-7633

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

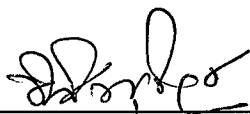
29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

(632) 636-2444
(632) 636-2391

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By 
PUNCHI BANDARA JAYASUNDERA
Secretary
Ministry of Finance and Planning

ASIAN DEVELOPMENT BANK

By 
RICHARD W.A. VOKES
Country Director
Sri Lanka Resident Mission

SCHEDULE 1

Project Description

1. The expected impact of the Project is the increased relevance of secondary and tertiary education to labor market requirements, resulting in increased employability of educated youth. The expected outcome of the Project is improved quality, relevance, effectiveness, and equity of access to secondary and tertiary education.

2. The Project shall comprise the following components:

Component 1: Increased Equity of Access to Education

- (i) Upgrade 150 secondary schools, including buildings and furnishings, in the poorest administrative districts;
- (ii) Provide 150 secondary schools mentioned under (i) with modern and fully operational technology, science, multi-purpose and ICT facilities with internet connectivity; and
- (iii) Provide about 30,000 scholarships for secondary education and non-university tertiary education.

Component 2: Enhanced Quality and Relevance of Education

- (i) Support NIE to develop CBE curriculum, instructional materials, teaching methodology and assessment of learner competencies, in particular for languages, mathematics, sciences, and technical subjects - including ICT -, including through (a) supporting 8 NIE staff to attend overseas master degree studies; (b) supporting 7 NIE staff to attend national master degree studies; (c) supporting international attachments related to pedagogical applications of ICT for 25 NIE staff; and (d) providing local training programs for about 60 NIE and NETS staff;
- (ii) Develop the capacity of 18 National Colleges of Education and 10 Teacher Training Centers to provide pre-service and in-service training in CBE teaching and assessment methods and ICT applications;
- (iii) Provide teacher training in CBE teaching and assessments, as well as in ICT applications in the teaching of key subjects to about 18,000 teachers;
- (iv) Upgrade the CEIEE;
- (v) Train about 7,000 English language teachers and educators;
- (vi) Upgrade the SLIATE through (a) the renovation, furnishing and equipping of classrooms, labs and workshops of the 12 Advanced Technological Institutes; (b) the revision of the curriculum; (c) the training of about 50 SLIATE teaching staff in technical specialization; (d) the training of about 5 administrative staff in management and administrative fields; and (e) the development of a Management Information System for SLIATE;
- (vii) Provide at least 3 computers, uninterrupted power supplies, internet connectivity, and printers to about 2,125 secondary schools;
- (viii) Train about 10,600 teachers in basic computer literacy; and
- (ix) Establish and manage the Initiative for Innovative ICT for Learning.

Component 3: Improved HIV/AIDS and Health Education

- (i) Refurbish the School Health and Nutrition Unit of the MOE as well as the Zonal Resource Centers;
- (ii) Provide furniture and multi-media equipment for the Zonal Resource Centers;
- (iii) Revise the secondary school curriculum to integrate HIV/AIDS and health education;
- (iv) Design and implement a training of trainers program on HIV/AIDS and health education, covering about 300 trainers;
- (v) Train about 6,000 secondary school teachers in HIV/AIDS and health education; and
- (vi) Purchase or develop multi-media learning materials on HIV/AIDS and health education and distribute these to Zonal Resource Centers and teachers.

Component 4: Improved Policy, Governance, and Service Delivery

- (i) Support the establishment of a high level policy coordination and partnerships mechanism to encourage policy dialogue among senior representatives of general and tertiary education, technical education and vocational training, and the private sector through the provision of funds for research studies, policy dialogue, organizing consultation meetings, seminars and workshops, international exchanges and peer reviews;
- (ii) Establish a management information system for MOE and its zonal offices;
- (iii) Upgrade the facilities at the CELD;
- (iv) Improve the capacity of CELD staff;
- (v) Design a three months education management certificate course as well as a one year Master in Arts (MA)/Master of Education (M.Ed) in leadership for school principals and education officers;
- (vi) Support 4,000 education administrators to participate in the education management certificate course and 200 education administrators to participate in the MA/M.Ed;
- (vii) Support the establishment and equipment of a network of 92 zonal resource centers to provide career guidance;
- (viii) Build capacity in career guidance and vocational counseling through (a) supporting one TC staff per province to obtain a post-graduate in career guidance and vocational training; (b) delivering a training program on career guidance and vocational counseling to about 800 secondary school teachers and 184 TC staff to further provide career guidance and vocational training to their students; and (d) establishing a MOE-hosted website on the subject;
- (ix) Develop and implement a social marketing strategy and information campaign; and
- (x) Support 30 staff from MOE and the provincial Ministries of Education to obtain a certificate in social marketing.

3. The Project will also provide consulting services. The Project is expected to be completed by 31 December 2012.

SCHEDULE 2**Amortization Schedule
(Education for Knowledge Society Project)**

Payment Due Date	Payment of Principal (Expressed in SDR)*
15-May-2016	871,813.00
15-Nov-2016	871,813.00
15-May-2017	871,813.00
15-Nov-2017	871,813.00
15-May-2018	871,813.00
15-Nov-2018	871,813.00
15-May-2019	871,813.00
15-Nov-2019	871,813.00
15-May-2020	871,813.00
15-Nov-2020	871,813.00
15-May-2021	871,813.00
15-Nov-2021	871,813.00
15-May-2022	871,813.00
15-Nov-2022	871,813.00
15-May-2023	871,813.00
15-Nov-2023	871,813.00
15-May-2024	871,813.00
15-Nov-2024	871,813.00
15-May-2025	871,813.00
15-Nov-2025	871,813.00
15-May-2026	871,813.00
15-Nov-2026	871,813.00
15-May-2027	871,813.00
15-Nov-2027	871,813.00
15-May-2028	871,813.00
15-Nov-2028	871,813.00
15-May-2029	871,813.00
15-Nov-2029	871,813.00
15-May-2030	871,813.00
15-Nov-2030	871,813.00
15-May-2031	871,813.00
15-Nov-2031	871,813.00
15-May-2032	871,813.00
15-Nov-2032	871,813.00
15-May-2033	871,813.00
15-Nov-2033	871,813.00
15-May-2034	871,813.00
15-Nov-2034	871,813.00
15-May-2035	871,813.00
15-Nov-2035	871,813.00
15-May-2036	871,813.00
15-Nov-2036	871,813.00

Payment Due Date	Payment of Principal (Expressed in SDR)*
15-May-2037	871,813.00
15-Nov-2037	871,813.00
15-May-2038	871,813.00
15-Nov-2038	871,813.00
15-May-2039	871,813.00
15-Nov-2039	871,789.00
Total	41,847,000.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3 A**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 10 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

6. (a) Except as ADB may otherwise agree, Sri Lanka shall establish immediately after the Effective Date, an imprest account at the Central Bank of Sri Lanka. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The currency of the imprest account shall be dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Loan amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

Condition of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Financing Agreement, no withdrawals shall be made from the Loan Account

(a) for the extension, upgrading, or renovation of any school unless said school has prepared a time-bound action plan for the selection and deployment of the needed teachers and principal, and until the MOE and PME have allocated the requested cadre. All cadre positions thus allocated shall be filled prior to the disbursement of any funds required for the implementation of the Project operational plan for the subsequent year for that particular school; and

(b) for the NIE – including the CELD -, until an institutional audit, including a human resources plan with budget allocation, has been approved by the NIE council and at least sixty percent (60%) of the approved cadre has been filled.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Education for Knowledge Society Project)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated SDR Category	Percentage and Basis for Withdrawal from the Loan Account
1	Works	10,814,000	65 percent of total expenditure*
2	Furniture and Equipment	15,441,000	100 percent of total expenditure*
3	Vehicles	108,000	100 percent of total expenditure*
4	Instructional Material	2,833,000	100 percent of total expenditure*
5	Foreign Training	1,378,000	100 percent of total expenditure*
6	Local Training	4,008,000	71 percent of total expenditure*
7	Consulting Services	1,557,000	100 percent of total expenditure*
8	Campaign, M&E, Auditing	612,000	100 percent of total expenditure*
9	Incremental Staff	902,000	100 percent of total expenditure*
10	Interest Charge	1,097,000	100 percent of amount due
11	Unallocated	3,097,000	
	Total	41,847,000	

* Exclusive of taxes and duties imposed within the territory of Sri Lanka.

SCHEDULE 3B**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, consulting services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories and Subcategories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Account; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, Sri Lanka shall establish immediately after the Effective Date, an imprest account at the Central Bank of Sri Lanka. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The currency of the imprest account shall be dollar. The initial amount to be deposited into the imprest account shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$100,000.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Education for Knowledge Society Project)				
CATEGORY				ADB FINANCING
Number	Item	Amount Allocated		Percentage and Basis for Withdrawal from the Grant Account
		Category	\$ Subcategory	
1	Works	306,000		100 percent of total expenditure*
2	Furniture and Equipment	703,000		100 percent of total expenditure*
3	Vehicles	30,000		100 percent of total expenditure*
4	Learning Material	701,000		100 percent of total expenditure*
5	Training, Workshop, Seminar and Conference	1,710,000		100 percent of total expenditure*
6	Consultancy Services	485,000		100 percent of total expenditure*
7	Monitoring and Evaluation	70,000		100 percent of total expenditure*
8	Web Design and Maintenance	65,000		100 percent of total expenditure*
9	Operating Cost	585,000		100 percent of total expenditure*
10	Special Program FIIL	6,300,000		100 percent of total expenditure*
11	Student Scholarship	3,000,000		100 percent of total expenditure*
12	Unallocated	1,045,000		
12a	HIV / AIDS component		345,000	
12b	Project component		700,000	
	Total	15,000,000		

* Exclusive of taxes and duties imposed within the territory of Sri Lanka.

SCHEDULE 4

Procurement of Goods and Works, and Consulting Services

A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Loan and Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.

2. All terms used and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Direct Procurement

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. Sri Lanka may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. National Competitive Bidding. National competitive bidding shall conform to the provisions as prescribed in Sri Lanka's (a) Procurement Guidelines 2006 for Goods and Works (issued on January 2006 by the National Procurement Agency) and (b) the specific procedures prescribed by the Procurement Manual issued on March 2006, with the clarifications and modifications described in the following paragraphs required for compliance with the provisions of the Procurement Guidelines.

i. Registration

(a) Bidding shall not be restricted to pre-registered firms under the national registration system of the Institute for Construction, Training and Development (ICTAD), and such registration shall not be a condition for the submission of bids in the bidding process.

(b) Where registration is required prior to award of contract, bidders: (i) shall be allowed a reasonable time to complete the ICTAD registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through postqualification.

(c) National sanction lists or blacklists may be applied only with prior approval of ADB.

ii. Prequalification

Post qualification shall be used unless prequalification is explicitly provided for in the Financing Agreement. When used for large or complex Works contracts, i.e. turnkey, design and build, or management contracts; or custom-designed equipment, industrial plants, and specialized services, prequalification evaluation shall not include the evaluation of equipment and personnel. This assessment shall be undertaken at the bid evaluation stage. Irrespective of the procedure applied (whether prequalification or postqualification), no domestic or foreign contractor shall be precluded from participation.

iii. Advertising

Bidding of contracts estimated at \$500,000 or more for Goods or \$1,000,000 or more for Works shall be advertised concurrently with the general procurement notices on ADB's website.

iv. Bidding Documents

Procuring entities shall use standard bidding documents acceptable to ADB for the procurement of Goods and Works based ideally on the standard bidding documents issued by ADB.

v. Packaging

Slicing or splitting of contracts within a package shall not be used to change the contract sizes and their corresponding methods of procurement as approved in the Procurement Plan.

vi. Bid Security

Where required, bid security shall be in the form of a bank guarantee from a reputable bank.

vii. Preferences

(a) No preference of any kind shall be given to domestic bidders or for domestically manufactured goods.

(b) Foreign suppliers and contractors from ADB member countries shall be allowed to bid, without registration, licensing, and other government authorizations, leaving compliance with these requirements for after award and before signing of contract.

viii. Procurement of Works

(a) Specifications for works may be based on specifications recommended by ICTAD to the extent possible, but ICTAD approval shall not be required for adoption of specifications in a particular procurement activity.

(b) The determination of the financial capacity of a bidder for award of the contract in postqualification evaluation shall take into account current contract

commitments and shall not be confined, for domestic bidders, to the ICTAD registration.

ix. Bid Rejection for Unrealistic Rates

Bids shall not be subjected to a test for unrealistic rates. No lowest evaluated and substantially responsive bid shall be rejected on the basis of comparison to rates, including but not limited to market, historical, or agency established rates, without prior approval of ADB.

x. Rejection of All Bids and Rebidding

Bids shall not be rejected and new bids solicited without the ADB's prior concurrence.

xi. Price Negotiations

Price negotiation shall be allowed only where the price offered by the lowest evaluated and substantially responsive bidder substantially exceeds costs estimates. Approval of ADB is required prior to any negotiation of prices.

xii. Participation by Government-owned Enterprises

Government-owned enterprises in the Democratic Socialist Republic of Sri Lanka shall be eligible to participate only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the procuring entity, or the Project Executing Agency or Implementing Agency.

xiii. Member Country Restrictions

Bidders must be nationals of member countries of ADB, and offered Goods and Works must be produced in and supplied from member countries of ADB.

C. Selection of Consulting Services

5. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, Sri Lanka shall apply quality- and cost-based selection for selecting and engaging consulting services.

D Industrial or Intellectual Property Rights

6. Sri Lanka shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) Sri Lanka shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

7. Sri Lanka shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

F. ADB's Review of Procurement Decisions

8. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between Sri Lanka and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Arrangements and responsibilities for Project Management and Project Implementation

A. Executing Agency and Implementing Agencies

1. The Executing Agency for the Project shall be the MOE who shall be responsible for the overall carrying out of the Project.
2. The IAs shall be as follows: MOE for Components 1 (i) , (ii), (iii), 2 (ix), (x) and 4 (i), (ii), (vii), (viii), (ix), (x); PME for Components 1 (i), (ii), (iii), and 4 (vii), (viii), (ix), (x) ; Zonal Education Offices for Components 1 (i) (ii) and 2 (iii), (vii), (viii); NIE for Components 2 (i), (ii), (iii) and 3 (ii); NIE-CELD for Components 4 (iii), (iv), (v),(vi); NETS for Component 2 (i); SLIATE Directorate-General and SLIATE Centers for Component 2 (vi); and NCOE in Peradinya for Component 2 (iv), (v). Component 3 shall be implemented through a technical committee with representatives from both MOE and Ministry of Health.

B. Project Steering Committee

3. The Project Steering Committee of SEMP II shall be enlarged and serve as the PSC for the Project. The PSC shall be chaired by the Secretary of MOE and shall comprise the Secretary MHE, representatives of MVTT, MOE, Finance Commission, External Resources Department of the Ministry of Finance, National Planning Department, NIE, NETS, PME, the National Education Commission, the Ministry of Health, and the Federation of Chambers of Commerce and Industry as well as one (1) Provincial Director of Education on a rotating basis. The PSC shall (a) provide overall direction for the Project; (b) monitor Project activities and outputs; (c) guide the PMO; and (d) coordinate and liaise among government agencies and departments. The PSC shall meet as necessary, but not less than once a quarter.

C. Project Management Office

4. The PMO of SEMP II shall be the PMO for the Project. Additional staff shall be recruited as required but shall include at least the following staff at the central level: a deputy Project Director, an education specialist, a procurement specialist, an accountant, an ICT specialist and five (5) management assistants. In addition, a sub-unit for the upgrading of schools shall be established at the national level which shall comprise a Project Manager, an engineer, an architect, a draughtsman, two (2) technical assistants, two (2) administrative support staff, and a driver.
5. At the Provincial level, in addition to the existing eight (8) Provincial Project Management Offices (Provincial PMOs) established under SEMP II, a Provincial PMO shall be established in the Northern Province, staffed and provided with facilities in the same manner as the other Provincial PMOs. An additional position for a management assistant shall be created for each Provincial PMO.

Project Implementation

A. Policy issues

6. Within six (6) months of the Effective Date, a coordination mechanism between MOE, MHE, MVTT, and the private sector shall be established, with terms of reference to harmonize policies for the broader education sector and promoting multi-stakeholders' education partnerships in key policy reform areas.

7. MOE and MHE shall ensure that the revision of SLIATE's curriculum shall be done in accordance with appropriate occupational standards.

8. Within six (6) months of the Effective Date, the CELD shall be established as a center under the NIE Act.

9. Within one (1) year of the Effective Date, Sri Lanka shall have established the Initiative for Innovative ICT for Learning, including operational rules and guidelines and selection criteria acceptable to ADB.

B. Criteria for selection of schools, SLIATE centers, and scholarships

10. MOE shall ensure that the selection of schools to be upgraded under the Project shall be done in accordance with the selection criteria agreed upon between MOE and ADB, and taking into account geographical distribution. In the first year, approximately 60 schools shall be selected, and about 60 schools every year thereafter up to a maximum of 150 schools. If in any given year selected schools from the Northern Province cannot be upgraded due to security concerns, those schools shall be replaced in that year with schools from another province, but the overall Project quota for schools in the Northern Province to be upgraded shall remain the same. Reallocation of funds among schools within the Northern Province shall be agreed between MOE and ADB.

11. The SLIATE centers to be upgraded under the Project shall be selected in such a way as to ensure geographical distribution. The upgrading of any SLIATE center shall be in line with the SLIATE Strategic Plan 2007-2010, as may be updated from time to time.

12. MOE shall ensure that all scholarships shall be awarded in accordance with the criteria and guidelines for the selection and management of scholarships, which shall be developed within six (6) months of the Effective Date. The guidelines shall include a complaint and grievance resolution mechanism which may be the complaint investigation and resolution mechanism established by SEMPII in MOE's Internal Audit Unit.

C. Staffing and financing issues

13. Throughout Project implementation and thereafter, Sri Lanka shall allocate sufficient funds from its budget to ensure an acceptable level of operation and maintenance of schools, including for (a) the availability of water, sanitation, and utilities; (b) maintenance and repair of computers; and (c) salaries of teachers, principals, and support staff.

14. Within twelve (12) months of the Effective Date, MOE shall have reviewed and updated the action plans, including incentives prepared under SEMPII, for transfer of teachers to rural and disadvantaged areas.

15. MOE shall ensure that all required allocated positions for CEIEE shall be filled prior to the commencement of the respective training program.

16.. MOE and MHE shall ensure that cadre positions required for SLIATE program expansion, including management of the new courses, shall remain available and that recruitment for those positions shall be finalized within twelve (12) months of the Effective Date.

17. MOE and MHE shall ensure that any staff from NIE, CELD, CEIEE, and SLIATE centers who is to participate in a training course of one month or more shall have suitable acting arrangements prior to said staff starting the course.

18. MOE shall ensure that all candidates for local and overseas training and fellowships shall be selected in accordance with criteria agreed upon between MOFP and ADB. MOE shall make all efforts to retain staff that has participated in such overseas training and fellowships at their respective institutions in accordance with existing regulations.

19. MOE shall take all necessary and appropriate measures to implement the recommendations of the annual external financial audit within two (2) months after having received such recommendations.

D. Operational matters

20. Within three (3) months of the Effective Date, broadband internet connection shall have been installed at CELD.

21. Every year, at the latest 30 days prior to the start of the next fiscal year, MOE shall prepare and provide ADB with the Project operational plan for the next fiscal year. Such plan shall include at least the following: (a) proposed Project activities with cost estimates for each component and subcomponent, with performance targets; (b) a plan for compliance with any outstanding Project covenants; and (c) details of how Project activities shall be integrated into the annual plan and budget of the overall education sector development framework and program.

E. Access issues

22. MOE shall ensure that the social marketing campaign shall be conducted in both official languages of Sri Lanka as well as in English.

23. MOE shall regularly update its webpage with Project related information to promote transparency, accountability, and efficiency.

F. Safeguard issues

24. MOE shall ensure that all facilities to be extended, upgraded, or renovated under the Project shall be located on land owned by Sri Lanka, and that no displacement or resettlement of people, including squatters, shall be involved. All efforts shall be made to ensure that no civil works shall be included that would require land acquisition, involuntary resettlement, or voluntary land donations. Should any land acquisition or involuntary resettlement nonetheless be required, this shall be done in accordance with the resettlement

framework agreed upon between Sri Lanka and ADB as set forth in Supplementary Appendix 4 to the RRP.

25. MOE shall ensure that the design, extension, upgrading, renovation and operations of facilities under the Project will follow Sri Lanka's environmental requirements, as well as ADB's Environment Policy, 2002. The disposal of hazardous chemicals that may be used during science classes shall be consistent with the handling and safe disposal of hazardous chemicals measures for secondary schools.

26. MOE shall ensure that the Project shall be implemented in accordance with (1) the Ethnic Equity Framework agreed upon between Sri Lanka and the ADB as set forth in Appendix 13 of the RRP and (2) the Gender Strategy agreed upon between Sri Lanka and the ADB and incorporated in Appendix 12 of the RRP.

27. MOE shall ensure that civil works contractors comply with all applicable labor legislation of Sri Lanka. Bidding documents shall include a clause on the prohibition of child labor, as defined in national legislation, for construction and maintenance activities as well as a clause regarding the respect of the approved regulation of Sri Lanka on equal wages for men and women for work of equal value. Compliance with these provisions shall be strictly monitored during Project implementation.

G. Project review

28. Sri Lanka and ADB shall jointly undertake at least two (2) Project review missions a year.

29. During the third year of Project implementation, the Beneficiary and ADB shall jointly conduct a comprehensive mid-term review (MTR) of Project implementation. The MTR shall (a) review the Project scope, design, implementation arrangements, institutional development, and capacity-building processes; (b) review changes in Sri Lanka's policies and institutional framework since appraisal of the Project and evaluate the impact of those changes on Project implementation and sustainability; (c) assess the equity of resource distribution across regions, gender, ethnicity, and medium of instruction of all Project components; (d) assess the status of Project implementation in the conflict-affected areas including the Project quota for schools in the Northern Province; (e) assess Project implementation against performance indicators; (f) review compliance with loan covenants; (g) identify critical issues and constraints; and (h) if necessary, identify and recommend changes needed in any or all of the above areas. At the latest one month prior to the MTR, MOE shall submit to ADB a comprehensive report on each of the above mentioned issues.

H. Project performing monitoring system (PPMS)

30. Within six (6) months of the Effective Date, the PMO shall have conducted the initial baseline physical and socioeconomic surveys and shall have submitted for ADB's review and concurrence, a detailed implementation plan for monitoring performance and for preparing benchmark information. Data shall be analyzed by gender and ethnicity. Thereafter, the PMO shall submit annual monitoring and evaluation reports to ADB for the entire duration of the Project.

31. The monitoring indicators for Component 3 shall be developed by the School Health and Nutrition Unit of the MOE, in consultation with the technical committee mentioned in paragraph 2 above.