
LOAN NUMBER 2275-SRI
(Supplementary to Loan No. 1993-SRI)

LOAN AGREEMENT
(Ordinary Operations)

(Secondary Towns and Rural Community-Based Water Supply and Sanitation Project –
Supplementary)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 6 June 2007

LAL:SRI 31501

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 6 June 2007 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (hereinafter called the Borrower) and ASIAN DEVELOPMENT BANK (hereinafter called ADB).

WHEREAS

(A) by a Loan Agreement (Loan No. 1993-SRI: Secondary Towns and Rural Community-Based Water Supply and Sanitation Project) dated 18 August 2003 between the Borrower and ADB (hereinafter called the Initial Loan Agreement) ADB had made a loan (hereinafter called the Initial Loan) to the Borrower from ADB's Special Funds resources in the amount of forty five million six hundred eighty-nine thousand Special Drawing Rights (SDR 45,689,000) for the purposes of the project described in Schedule 1 to the Initial Loan Agreement (hereinafter called the Initial Project);

(B) the Borrower has applied to ADB for two supplementary loans, one from ADB's Special Funds resources and one from ADB's ordinary capital resources, both for the purposes of financing cost overruns under the Initial Project, as amended and described in Schedule 1 to the Special Operations Loan Agreement (hereinafter called the Project);

(C) by an Agreement of 14 December 2006 between the Borrower and ADB (hereinafter called the Special Operations Loan Agreement), ADB has agreed to make a supplementary loan to the Borrower from ADB's Special Funds resources for an amount in various currencies equivalent to thirty one million four hundred eighty one thousand Special Drawing Rights (SDR 31,481,000) for the purposes of the Project upon the terms and conditions set forth in the Special Operations Loan Agreement;

(D) the Project will be carried out by the National Water Supply and Drainage Board (hereinafter called NWSDB), and for this purpose the Borrower will make available to NWSDB the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(E) ADB has agreed to make a supplementary loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement between ADB and NWSDB;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, (said Ordinary Operations Loan Regulations being hereinafter called the Loan Regulations).

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations and the Special Operations Loan Agreement have the respective meanings therein set forth, and the following additional term has the following meaning: "Special Operations Loan Agreement" means the Loan Agreement referred to in Recital C of this Loan Agreement.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of thirteen million five hundred thousand Dollars (\$13,500,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a term of twenty-five (25) years, including a grace period of five (5) years, as provided in Schedule 1 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as provided by Section 3.02 of the Loan Regulations.

Section 2.03. (a) The Borrower shall pay a commitment charge at the rate of three-fourths of one percent (0.75%) per annum. Such charge shall accrue on amounts of the Loan (less amounts withdrawn from time to time), during successive periods commencing sixty (60) days after the date of this Loan Agreement, as follows:

during the first twelve-month period, on \$2,025,000;
during the second twelve-month period, on \$6,075,000;
during the third twelve-month period, on \$11,475,000; and
thereafter, on the full amount of the Loan.

(b) If any amount of the Loan is cancelled, the amount of each portion of the Loan stated in paragraph (a) of this Section shall be reduced in the same proportion as the cancellation bears to the full amount of the Loan before such cancellation.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall make available the proceeds of the Loan to NWSDB as a loan and a grant under a Subsidiary Financing Agreement upon terms and conditions satisfactory to ADB. Except as ADB may otherwise agree, the Borrower shall make available the proceeds of the Loan to NWSDB as follows:

- (i) eighty-five percent (85%) of funding for water supply schemes in Pradeshiya Sabhas as a grant and fifteen percent (15%) as a loan;
- (ii) for urban councils and municipal councils, fifty percent (50%) of funding as a grant and fifty percent (50%) as a loan; and

- (iii) for rural water supply and sanitation systems implemented by communities, one hundred percent (100%) of funding as a grant.

(b) Except as ADB may otherwise agree, the terms for loan from the Borrower to NWSDB under the Subsidiary Financing Agreement shall include interest at the rate of ten percent (10%) per annum (inclusive of foreign exchange risk) and a repayment period of twenty-four (24) years including a grace period of five (5) years.

(c) The Borrower shall cause NWSDB to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan among different categories of such Goods, Works and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower 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 shall be procured in accordance with the provisions of Schedule 4 to the Special Operations Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all Goods, Works and consulting services financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2010 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants and Incorporation of Amendments and Provisions of the Initial Loan Agreement

Section 4.01. (a) The Borrower shall cause NWSDB to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, public utility and water supply practices.

(b) In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to the Special Operations Loan Agreement and Schedule 6 to the Initial Loan Agreement.

Subject to the provisions of this Loan Agreement, all of the provisions of Schedule 6 to the Initial Loan Agreement are hereby incorporated in this Loan Agreement and shall have the same force and effect as if they were fully set forth herein.

Section 4.02. The Borrower shall make available to NWSDB, promptly as needed and on terms and conditions acceptable to ADB, the funds, facilities, services, land and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 4.03. The Borrower shall ensure that the activities of NWSDB and its departments and agencies with respect to the carrying out of the Project and operation of the Project facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. The Borrower shall take all action which shall be necessary on its part to enable NWSDB to perform its obligations under the Project Agreement, including the revision in the tariffs as stipulated in paragraph 9 of Schedule 5 to the Special Operations Loan Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Financing Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Financing Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

(a) the Borrower shall have failed to perform any of its obligations under the Special Operations Loan Agreement or the Initial Loan Agreement; and

(b) the Borrower or NWSDB shall have failed to perform any of their obligations under the Subsidiary Financing Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Subsidiary Financing Agreement, in a form and substance acceptable to ADB, shall have been duly authorized or ratified, executed and delivered on behalf of, the Borrower and NWSDB, and is legally binding upon them in accordance with its terms.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Subsidiary Financing Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and NWSDB, and is legally binding upon them in accordance with its terms.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII

Delegation of Authority

Section 7.01. The Borrower hereby designates NWSDB its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.05 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by NWSDB pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on NWSDB under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII**Miscellaneous**

Section 8.01. The Secretary, Ministry of Finance and Planning of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

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:

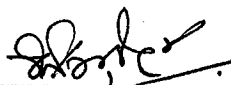
29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:


(632) 636-2444
(632) 636-2293.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan 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

Amortization Schedule

(Secondary Towns and Rural Community-Based Water Supply and Sanitation Project – Supplementary)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Date Payment Due</u>	<u>Payment of Principal</u> (Expressed in percentage)
15-May-2012	0.83
15-Nov-2012	0.87
15-May-2013	0.91
15-Nov-2013	0.96
15-May-2014	1.01
15-Nov-2014	1.06
15-May-2015	1.11
15-Nov-2015	1.16
15-May-2016	1.22
15-Nov-2016	1.28
15-May-2017	1.35
15-Nov-2017	1.42
15-May-2018	1.49
15-Nov-2018	1.56
15-May-2019	1.64
15-Nov-2019	1.72
15-May-2020	1.81
15-Nov-2020	1.90
15-May-2021	1.99
15-Nov-2021	2.09
15-May-2022	2.20
15-Nov-2022	2.31
15-May-2023	2.42
15-Nov-2023	2.54
15-May-2024	2.67
15-Nov-2024	2.80
15-May-2025	2.94

Schedule 1

<u>Date Payment Due</u>	<u>Payment of Principal</u> (Expressed in percentage)
15-Nov-2025	3.09
15-May-2026	3.25
15-Nov-2026	3.41
15-May-2027	3.58
15-Nov-2027	3.76
15-May-2028	3.94
15-Nov-2028	4.14
15-May-2029	4.35
15-Nov-2029	4.57
15-May-2030	4.79
15-Nov-2030	5.03
15-May-2031	5.29
15-Nov-2031	5.54
TOTAL	100.00

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

Schedule 1

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 2**Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, 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 and Commitment Charge

3. The amount allocated to Category 3 is for financing interest and commitment charge on the Loan during the implementation period of the Project. ADB shall be entitled to withdraw from the Loan Account and pay to itself, on behalf of the Borrower, the amounts required to meet payments, when due, of such interest and commitment charge.

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, by notice to the Borrower, (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, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, all Goods, Works and consulting services and other items to be financed out of the Loan proceeds shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2001 (ADB's Loan Disbursement Handbook) and ADB's "Interim Guidelines for Disbursement Operations, LIBOR-Based Loan Products" dated July 2002, both as amended from time to time.

Imprest Account: Statement of Expenditures

6. (a) Except as ADB may otherwise agree, the Borrower 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 the Borrower 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 for the Project and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower 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 LOAN PROCEEDS (Secondary Towns and Rural Community - Based Water Supply and Sanitation Project - Supplementary)			
CATEGORY			ADB FINANCING
Number	Item	Amount Allocated \$ Category	Percentage and Basis for Withdrawal from the Loan Account
1	Works	5,747,000	62 percent of total expenditure
2	Equipment and Materials	4,609,000	70 percent of total expenditure*
3	Interest and Commitment Charge	1,561,000	100 percent of amount due
4	Unallocated	1,583,000	
	Total	13,500,000	

* Exclusive of duties and taxes.