

 ADB

Asian Development Bank

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LETTER OF AGREEMENT

Mrs. Sujatha Cooray
Director General
External Resources Department
Ministry of Finance and Planning
The Secretariat
3F P.O. Box 277
Colombo 01
Sri Lanka

Dear Mrs. Cooray,

**Re: Conversion of Payment Obligations under Asian Development Fund (ADF) Loans
into Special Drawing Rights (SDR)**

1. Under the Asian Development Fund Currency Management Proposal approved by the Asian Development Bank (ADB) on 28 November 2005, ADB is authorized to value the obligations of its borrowers regarding repayment of principal and payment of interest charge or service charge in respect of loans made from ADB's Asian Development Fund (ADF) in terms of Special Drawing Rights (SDR). ADB has implemented this policy for the new loans made to borrowers since 2006 (loans for which the invitation to negotiate was issued after 1 January 2006).

2. In accordance with the Asian Development Fund Currency Management Proposal, ADB is now offering the Democratic Socialist Republic of Sri Lanka (the Borrower) the option to convert into SDR the Borrower's payment obligations for the loans made by ADB to the Borrower listed in paragraph 3 below.

3. This letter applies to the Borrower's loans for which the Loan Agreements incorporate by reference the following ADB's Special Operations Loan Regulations: (a) Special Operations Loan Regulations, dated 6 May 1969 (the "1969 Loan Regulations"), (b) Special Operations Loan Regulations, dated 17 February 1977 (the "1977 Loan Regulations"), (c) Special Operations Loan Regulations, dated 7 December 1982 (the "1982 Loan Regulations"), and (d) Special Operations Loan Regulations, dated 1 May 2004 (the "2004 Loan Regulations"), which are listed below (hereinafter referred to collectively as the "Loans" or each loan individually as the "Loan"):

A. Loan Agreements governed by the 1969 Loan Regulations

- Loan No. 0203-SRI(SF): Communications Satellite Earth Station Project Supplementary
- Loan No. 0231-SRI(SF): Urea Fertilizer Project

- Loan No. 0288-SRI(SF): Development Finance Corporation of Ceylon Project
- Loan No. 0299-SRI(SF): Canyon Hydropower Project

B. Loan Agreements governed by the 1977 Loan Regulations

- Loan No. 0324-SRI(SF): Kirindi Oya Irrigation and Settlement Project
- Loan No. 0369-SRI(SF): Sevanagala Sugar Development Project
- Loan No. 0403-SRI(SF): Urea Fertilizer Project - Supplementary
- Loan No. 0432-SRI(SF): Rural Credit Project
- Loan No. 0436-SRI(SF): Rural Electrification Project
- Loan No. 0451-SRI(SF): Second Development Finance Corporation of Ceylon
- Loan No. 0471-SRI(SF): Mahaweli Area Roads Development Project
- Loan No. 0472-SRI(SF): Third Tea Development Project
- Loan No. 0496-SRI(SF): Anuradhapura Dry Zone Agriculture Project
- Loan No. 0519-SRI(SF): NDB Project
- Loan No. 0520-SRI(SF): Second Fisheries Development Project
- Loan No. 0526-SRI(SF): Coconut Development Project
- Loan No. 0568-SRI(SF): Community Forestry Project
- Loan No. 0576-SRI(SF): Health and Population Project
- Loan No. 0585-SRI(SF): Technical Education Project
- Loan No. 0606-SRI(SF): Livestock Development Project
- Loan No. 0612-SRI(SF): Kirindi Oya Irrigation and Settlement Project - Supplementary

C. Loan Agreements governed by the 1982 Loan Regulations

- Loan No. 0634-SRI(SF): Special Supplementary Assistance to Selected Projects
- Loan No. 0648-SRI(SF): Aquaculture Development Project
- Loan No. 0695-SRI(SF): Walawe Irrigation Improvement Project
- Loan No. 0712-SRI(SF): Plantation Sector Project
- Loan No. 0732-SRI(SF): Secondary Towns Power Distribution Project
- Loan No. 0753-SRI(SF): Trunk Roads Improvement Project
- Loan No. 0754-SRI(SF): Development Financing Project
- Loan No. 0794-SRI(SF): Kirindi Oya Irrigation and Settlement Project (Phase III)
- Loan No. 0816-SRI(SF): Land Use Planning Project
- Loan No. 0817-SRI(SF): Water Supply Sector Project
- Loan No. 0820-SRI(SF): Agricultural Inputs Program
- Loan No. 0864-SRI(SF): Second Road Improvement Project
- Loan No. 0865-SRI(SF): Emergency Road Restoration Project
- Loan No. 0870-SRI(SF): Secondary Towns Power Distribution II
- Loan No. 0873-SRI(SF): Small and Medium Industries Project
- Loan No. 0887-SRI(SF): Second Technical Education Project
- Loan No. 0888-SRI(SF): Emergency Schools Restoration Project
- Loan No. 0896-SRI(SF): Second Development Financing Project
- Loan No. 0899-SRI(SF): Perennial Crops Development Project

- Loan No. 0955-SRI(SF): Smallholder Tea Development Project
- Loan No. 0993-SRI(SF): Agriculture Rehabilitation Project
- Loan No. 0994-SRI(SF): Agriculture Program
- Loan No. 1021-SRI(SF): Power System Expansion (Sector Loan) Project
- Loan No. 1038-SRI(SF): Second Telecommunications Project
- Loan No. 1051-SRI(SF): Financial Sector Program
- Loan No. 1084-SRI(SF): Second Small and Medium Industries Project
- Loan No. 1090-SRI(SF): Third Development Financing Project
- Loan No. 1096-SRI(SF): Low-Income Housing Development Project
- Loan No. 1127-SRI(SF): Second Agriculture Program
- Loan No. 1128-SRI(SF): Southern Province Rural Development Project
- Loan No. 1166-SRI(SF): North Western Province Water Resources Development Project
- Loan No. 1183-SRI(SF): Participatory Forestry Project
- Loan No. 1189-SRI(SF): Second Health and Population Project
- Loan No. 1201-SRI(SF): Fisheries Sector Project
- Loan No. 1204-SRI(SF): Urban Development Sector Project
- Loan No. 1235-SRI(SF): Second Water Supply and Sanitation Project
- Loan No. 1247-SRI(SF): Secondary Education Development Project
- Loan No. 1275-SRI(SF): Financial Management Training Project
- Loan No. 1302-SRI(SF): Fourth Development Finance Loan Project
- Loan No. 1312-SRI(SF): Third Road Improvement Project
- Loan No. 1402-SRI(SF): Plantation Reform Project
- Loan No. 1414-SRI(SF): Second Power System Expansion (Sector) Project
- Loan No. 1438-SRI(SF): Emergency Rehabilitation of Petroleum Facilities Project
- Loan No. 1462-SRI(SF): North Central Province Rural Development Project
- Loan No. 1535-SRI(SF): Science and Technology Personnel Development Project
- Loan No. 1545-SRI(SF): Upper Watershed Management Project
- Loan No. 1552-SRI(SF): Second Perennial Crops Development Project
- Loan No. 1567-SRI(SF): Southern Provincial Roads Improvement Project
- Loan No. 1575-SRI(SF): Third Water Supply and Sanitation Sector Project
- Loan No. 1632-SRI(SF): Urban Development and Low-Income Housing Sector Project
- Loan No. 1639-SRI(SF): Tea Development Project
- Loan No. 1649-SRI(SF): Road Network Improvement Project
- Loan No. 1707-SRI(SF): Skills Development Project
- Loan No. 1711-SRI(SF): Southern Transport Development Project
- Loan No. 1716-SRI(SF): Coastal Resource Management Project
- Loan No. 1744-SRI(SF): Forest Resources Management Sector Project
- Loan No. 1756-SRI(SF): Secondary Education Modernization Project
- Loan No. 1757-SRI(SF): Water Resources Management Project
- Loan No. 1767-SRI(SF): Protected Area Management and Wildlife Conservation Project
- Loan No. 1800-SRI(SF): Private Sector Development Subprogram I
- Loan No. 1841-SRI(SF): Colombo Port Efficiency and Expansion Project

- Loan No. 1846-SRI(SF): North East Community Restoration and Development Project
- Loan No. 1849-SRI(SF): Southern Province Rural Economic Advancement Project
- Loan No. 1894-SRI(SF): Small and Medium Enterprise Sector Development Program
- Loan No. 1895-SRI(SF): Small and Medium Enterprises Sector Development Program Business Services Support Facility Project
- Loan No. 1911-SRI(SF): Aquatic Resource Development and Quality Improvement Project
- Loan No. 1913-SRI(SF): Plantation Development Project
- Loan No. 1930-SRI(SF): Power Sector Development Project
- Loan No. 1986-SRI(SF): Road Sector Development Project
- Loan No. 1993-SRI(SF): Secondary Towns and Rural Community-Based Water Supply and Sanitation Project
- Loan No. 1999-SRI(SF): Distance Education Modernization Project
- Loan No. 2027-SRI(SF): North East Coastal Community Development Project
- Loan No. 2042-SRI(SF): Rural Finance Sector Development Project
- Loan No. 2043-SRI(SF): Conflict Affected Areas Rehabilitation Project
- Loan No. 2080-SRI(SF): Technical Assistance Loan for Road Project Preparatory Facility
- Loan No. 2084-SRI(SF): North East Community Restoration and Development - Extension Project

D. Loan Agreements governed by the 2004 Loan Regulations

- Loan No. 2096-SRI(SF): Secondary Education Modernization Project II
- Loan No. 2131-SRI(SF): Strengthening of the Fiscal Management Institutions Project
- Loan No. 2139-SRI(SF): Technical Assistance for Financial Markets Program for Private Sector Development
- Loan No. 2167-SRI(SF): Tsunami-Affected Areas Rebuilding Project
- Loan No. 2168-SRI(SF): North East Community Restoration and Development Project II
- Loan No. 2197-SRI(SF): Technical Education Development Project
- Loan No. 2201-SRI(SF): Local Government Infrastructure Improvement Project

4. For each Loan, the Borrower's obligation to repay the principal and to pay the interest, service fee, service charge, or interest charge (as the case may be) in the several currencies withdrawn from the Loan Account will be converted into SDR at the exchange rate between each currency concerned and the SDR, as determined by ADB on the Conversion Date. The Conversion Date for each Loan will be the first date on which the principal, interest, service fee, service charge, or interest charge (as the case may be) is due under the relevant Loan, falling at least one month after the date when ADB will have received a counterpart of this letter of agreement duly signed by the Borrower, provided that if ADB receives a duly signed counterpart of this letter of agreement on or prior to 31 December 2007, the Conversion Date for each Loan

will be the first date on which the interest, service fee, service charge, or interest charge (as the case may be) is due under the relevant Loan, falling after 31 January 2008.

5. For the purpose of the conversion referred to in paragraph 4 above, each Loan Agreement (Special Operations) between the Borrower and ADB in relation to a Loan

- (a) which is listed under paragraph 3A above (governed by the 1969 Loan Regulations), is amended in accordance with the provisions of Appendix 1 attached hereto;
- (b) which is listed under paragraph 3B above (governed by the 1977 Loan Regulations) is amended in accordance with the provisions of Appendix 2 attached hereto;
- (c) which is listed under paragraph 3C above (governed by the 1982 Loan Regulations) is amended in accordance with the provisions of Appendix 3 attached hereto; and
- (d) which is listed under paragraph 3D above (governed by the 2004 Loan Regulations) is amended in accordance with the provisions of Appendix 4 attached hereto.

6. For the avoidance of doubt, the conversion will not affect the undisbursed amount of each Loan, which will be equal to the difference between (a) the principal amount of the Loan specified in Section 2.01^a of the Loan Agreement (Special Operations) for such Loan less any amount that has been cancelled, and (b) the equivalent in SDR of the amounts in various currencies withdrawn from the Loan Account based on the value of such currencies expressed in SDR as of the respective dates of withdrawal.

7. Promptly after the Conversion Date of each Loan, ADB will provide the Borrower with a new amortization schedule for such Loan revised in accordance with the provisions of paragraph 4 above. For each Loan, the revised amortization schedule will replace, as of the Conversion Date, the amortization schedule included in the relevant Loan Agreement.

8. For the purposes of (i) Section 3.02 (a) of the 1969 Loan Regulations, and (ii) Section 4.03 (a) of the 1977 Loan Regulations, 1982 Loan Regulations and 2004 Loan Regulations, the currency of payment of principal of a Loan shall be the currency indicated below by the Borrower.

9. Please contact Ms. Im-em Unkavanich, Senior Treasury Specialist, Treasury Department of Asian Development Bank (Tel:+632 632 4704 or +632 632 5160; email: iunkavanich@adb.org) should you have any questions in relation to this letter of agreement or in relation to the proposed conversion of the Loans into SDR. A workshop to Sri Lanka to present the SDR conversion option and its implications will be held in the first quarter of 2008.

10. Please indicate your agreement to this letter by countersigning the two (2) original counterparts of this letter in the space indicated below, and returning one signed counterpart to the undersigned at ADB. The other signed counterpart may be retained by you for your records. For each Loan, the amendments to the Loan Agreement will be effective on the Conversion Date as defined in paragraph 4 above.

^a In the unlikely case where the principal amount of the Loan is not specified in section 2.01 of the Loan Agreement but in another section of the Loan Agreement, this sentence should be read as referring to the correct section of the Loan Agreement.

Very truly yours,



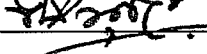
Kunio Senga
Director General
South Asia Department

Confirmed and Agreed:

The currency of payment referred to in paragraph 8 of this letter of agreement shall be: *

- Euro
- Japanese Yen
- Pound Sterling
- United States Dollar

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By: 
Name: _____
Title:

P B JAYASUNDERA
Secretary
Ministry of Finance and Planning
Colombo 1

Date: 29 February 2008

cc: Richard W. A. Vokes, Country Director, SLRM

* The Borrower may only choose one currency.

Appendix 4

Amendments to Loan Agreements
Incorporating the 2004 Loan Regulations

1. Each Loan Agreement (Special Operations) entered into between the Borrower and ADB and which incorporates by reference the 2004 Loan Regulations is amended as follows:

(a) Section 1.01^h of the Loan Agreement is amended by making or adding, as the case may be, the following modifications to the Loan Regulations as such term is defined in the Loan Agreement:

(i) Section 2.01 of the Loan Regulations is amended by adding the following definition:

"Conversion Date" shall have the meaning given to such term in the letter of agreement between ADB and the Borrower dated 19 December 2007."

(ii) Section 4.02 of the Loan Regulations is deleted and the following is substituted therefor:

"Section 4.02. **Currency of Withdrawal.** Withdrawals from the Loan Account shall be made in one or more of the currencies which constitute the SDR, as ADB may from time to time select. The amount of each withdrawal from the Loan Account shall be calculated as the SDR equivalent (determined as of the date of withdrawal) of the currency or currencies withdrawn from the Loan Account."

(iii) Section 4.03 of the Loan Regulations is deleted and the following is substituted therefor:

"Section 4.03. **Currency of Payment of Principal.** (a) The principal of the Loan shall be expressed in SDR and shall be repayable in one of the currencies which constitute the SDR as shall be specified in the Loan Agreement. The Borrower may at any time request that the principal of the Loan shall be repayable in any other of the currencies which constitute the SDR. Each such request shall be made in writing in such form and by giving such notice as ADB shall from time to time determine. Upon acceptance by ADB of such request, ADB shall notify the Borrower and the Guarantor of the modified provision providing for the currency of repayment.

(b) The Borrower shall repay the equivalent in SDR of the amount or the amounts withdrawn from the Loan Account determined as of the date, or the respective dates, of repayment. For amounts withdrawn from the Loan Account prior to the Conversion Date, such equivalent shall be calculated based on the value of the currency or currencies withdrawn from the Loan Account expressed in SDR as of the Conversion

^h In the unlikely case where the incorporation of the Loan Regulations is specified in another section of the Loan Agreement, this sentence should be read as referring to the correct section of the Loan Agreement.

Date; and for amounts withdrawn from the Loan Account on or after the Conversion Date, such equivalent shall be calculated based on the value of the currency or currencies withdrawn from the Loan Account expressed in SDR as of the respective date or dates of withdrawal.”

(b) The following Section 2.05ⁱ is added to Article II of the Loan Agreement:

“Section 2.05. The currency of payment of the principal of the Loan for the purposes of Section 4.03 (a) of the Loan Regulations shall be the currency as specified by the Borrower in the letter of agreement between ADB and the Borrower dated 19 December 2007.”

ⁱ In the unlikely case where Article II of the Loan Agreement does not include 4 sections, the section number indicated herein should be modified accordingly.