
LOAN NUMBER 2413-SRI
(Supplementary to Loan No. 1711-SRI)

LOAN AGREEMENT
(Ordinary Operations)

(Southern Transport Development Project – Supplementary)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 30 APRIL 2008

LAL:SRI 26522

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 30 April 2008 between the 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. 1711-SRI: Southern Transport Development Project) dated 16 December 1999 between the Borrower and ADB (hereinafter called the "Initial Loan Agreement") ADB had made to the Borrower a loan of sixty-four million eight hundred fifty-six thousand Special Drawing Rights (SDR 64,856,000) from ADB's Special Funds resources for the purposes of the Project described in Schedule 1 to the Initial Loan Agreement (hereinafter called the "Initial Project");

(B) by a project agreement (Loan No. 1711-SRI: Southern Transport Development Project) dated 16 December 1999 between ADB and RDA, the Borrower had made available to RDA the proceeds of the loan for the purpose of carrying out the Initial Project;

(C) by an amendment agreement (Loan No. 1711-SRI: Southern Transport Development Project) of even date herewith between the Borrower and ADB (hereinafter called the "Amendment Agreement"), the Borrower and ADB have agreed to amend the Initial Loan Agreement to reflect the change in the scope of the Initial Project as set forth therein;

(D) the Borrower has applied to ADB for a supplementary loan for the purposes of financing the change in scope and the cost overrun in relation to the Initial Project as described in Schedule 1 to this Loan Agreement (hereinafter called the "Project");

(E) the Project will be carried out by RDA, and for this purpose the Borrower will make available to RDA the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(F) 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 of even date herewith between ADB and RDA;

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, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the "Loan Regulations"):

- (a) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

- (b) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the

Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(c) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "CEA" means the Central Environment Authority of the Borrower, or any successor thereto;

(b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(c) “EMP” means the environmental management plan prepared by the Borrower in accordance with ADB’s *Environment Policy* (2002), and the Borrower’s environmental policies, laws and regulations;

(d) “ERD” means the External Resources Department of the Ministry of Finance and Planning of the Borrower;

(e) “ESD” means the Environmental and Social Division of the RDA;

(f) “Goods” means equipment and materials to be financed out of the proceeds of the Loan; including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(g) “JBIC” means the Japan Bank for International Cooperation;

(h) “IRP” means the income restoration program prepared by the Borrower in connection with the implementation of RIP, as updated from time to time, and acceptable to ADB;

(i) “MOHRD” means the Ministry of Highways and Road Development of the Borrower;

(j) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;

(k) “Procurement Plan” means the procurement plan for the Project dated 1 February 2008 and agreed between the Borrower and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(l) “PCC” means the Project coordination committee as described in paragraph 2 of Schedule 5 to this Loan Agreement;

(m) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means MOHRD, or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(n) “RDA” means the Road Development Authority of the Borrower;

(o) “RIP” means the Resettlement Implementation Plan as defined in Section 1.02(m) of the Initial Loan Agreement, as updated from time to time;

(p) “RRP” means ADB’s Report and Recommendation of the President to the Board of Directors for this Project; and

(q) “Works” means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of ninety million Dollars (\$90,000,000) 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 principal repayment period of 20 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 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, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing sixty (60) days after the date of this Loan Agreement.

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. The Borrower shall make the proceeds of the Loan available to RDA upon terms and conditions satisfactory to ADB and shall cause RDA to apply such proceeds 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 3 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 this 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 December 2010 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause RDA to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental, and technical 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 this Loan Agreement.

Section 4.02. The Borrower shall make available to RDA promptly as needed 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 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 RDA to perform its obligations under the Project Agreement and shall not take or permit any action which would interfere with the performance of such obligations.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event 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: the Borrower shall have failed to perform any of its obligations under the Initial Loan Agreement, as amended.

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: the event specified in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. 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 RDA 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 RDA 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 RDA 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. Each of the Secretary, Ministry of Finance and Planning, Deputy Secretary to the Treasury, and Director General, ERD, 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
Colombo, Sri Lanka

Copy: Deputy Secretary to the Treasury
Director General, ERD

Facsimile Number:

94 11 244 9823
94 11 244 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:

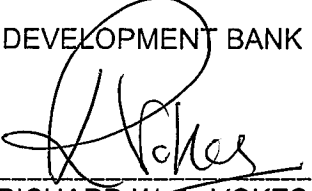
(632) 636-2444
(632) 636-2340.

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 
DR. P.B. JAYASUNDERA
Secretary
Ministry of Finance and Planning

ASIAN DEVELOPMENT BANK

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

SCHEDULE 1

Description of the Project

1. The Initial Project comprised (a) construction of a two-lane highway of approximately 128 km between Kottawa and Matara, and 15 km of access roads, with JBIC-financed section of civil works consisting of approximately 68 km of the highway from Kottawa to Kurundugahahetekma, and approximately 9 km of the access road near Panadura, and ADB-financed section of civil works consisting of approximately 60 km of the highway from Kurundugahahetekma to Gogadama in Matara, and approximately 6 km of the access road to Galle; (b) provision of consulting services for construction supervision and management in respect of the Project highway; (c) undertaking of civil works under the road safety component; (d) provision of consulting services under the road safety component; and (e) provision of equipment under the road safety component.

2. The Project highway, as described in paragraph 1(a) above, is now to be expanded to a four-lane highway. The ADB-financed section is restructured to comprise approximately 29.2 km of a four-lane highway from Kurundugahahetekma to Pinnaduwa Interchange, and the access road to Galle, with the Borrower financing civil works in the remaining approximately 30.8 km of the four-lane highway from Pinnaduwa Interchange to Godagama in Matara.

3. The proceeds of the Loan shall be applied for the following purposes:
 - (i) Financing of civil works in approximately 29.2 km of the highway from Kurundugahahetekma to Pinnaduwa Interchange for its expansion from a two-lane to a four-lane highway, and the access road to Galle;
 - (ii) Financing of cost overrun in respect of construction of two-lane highway from Kurundugahahetekma to Pinnaduwa Interchange, and the access road to Galle;
 - (iii) Provision of consultancy services for construction supervision of civil works between Kurundugahahetekma and Pinnaduwa Interchange, and the access road to Galle;
 - (iv) Provision of consultancy services for management of the entire civil works between Kottawa and Godagama in Matara, and Project management incremental expenses; and
 - (v) Provision of road safety equipment.

4. The Project is expected to be completed by 31 December 2009.

SCHEDULE 2

Amortization Schedule

(Southern Transport Development 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>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
15 May 2013	0.827816
15 Nov 2013	0.869207
15 May 2014	0.912667
15 Nov 2014	0.958301
15 May 2015	1.006216
15 Nov 2015	1.056526
15 May 2016	1.109353
15 Nov 2016	1.164820
15 May 2017	1.223061
15 Nov 2017	1.284214
15 May 2018	1.348425
15 Nov 2018	1.415846
15 May 2019	1.486639
15 Nov 2019	1.560971
15 May 2020	1.639019
15 Nov 2020	1.720970
15 May 2021	1.807019
15 Nov 2021	1.897369
15 May 2022	1.992238
15 Nov 2022	2.091850
15 May 2023	2.196442
15 Nov 2023	2.306264
15 May 2024	2.421578
15 Nov 2024	2.542657
15 May 2025	2.669789
15 Nov 2025	2.803279
15 May 2026	2.943443
15 Nov 2026	3.090615
15 May 2027	3.245146

Schedule 2

15 Nov 2027	3.407403
15 May 2028	3.577773
15 Nov 2028	3.756662
15 May 2029	3.944495
15 Nov 2029	4.141720
15 May 2030	4.348806
15 Nov 2030	4.566246
15 May 2031	4.794558
15 Nov 2031	5.034286
15 May 2032	5.286000
15 Nov 2032	5.550311
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.

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.

Schedule 2

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 3

Allocation and Withdrawal of Loan Proceeds

General

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

Reallocation

3. 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 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, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works and consulting services 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, 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.

Schedule 3

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 the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

Retroactive Financing

6. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with civil works described in paragraph 3(i) of Schedule 1 to this Agreement, subject to a maximum amount equivalent to \$18,000,000.

Condition of Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until the loan amount under the Initial Loan Agreement shall have been fully committed.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Southern Transport Development Project – Supplementary)				
CATEGORY				ADB FINANCING BASIS
Number	Item	Total Amount Allocated for ADB Financing \$ Category Subcategory		Percentage of ADB Financing from the Loan Account
1	Civil Works	69,250,000		50 percent of total expenditure
2	Consulting Services	9,300,000		
	Construction Supervision		8,000,000	100 percent of amounts due*
	Management Consultant		1,300,000	46.4 percent of amounts due*
3	Project Management	1,000,000		
4	Road Safety	2,450,000		
5	Unallocated	8,000,000		
	Total	90,000,000		

*Exclusive of local taxes.

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 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 Loan 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
Limited International Bidding
National Competitive Bidding
Shopping
Direct Contracting

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower 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. The Borrower and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Borrower's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Borrower and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by the Borrower and ADB.

C. Selection of Consulting Services

5. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, and except as set forth in the paragraph below, the Borrower shall apply quality- and cost-based selection for selecting and engaging consulting services.

6. The Borrower shall apply the following method for selecting and engaging the specified consulting services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Single Source Selection for construction supervision under paragraph 3(iii) of Schedule 1 to this Loan Agreement.

D. Industrial or Intellectual Property Rights

7. (a) The Borrower 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) The Borrower 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.

8. The Borrower 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.

E. ADB's Review of Procurement Decisions

9. 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 the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project and Operation of Project Facilities; Financial Matters

Implementation Arrangements

1. MOHRD, as the Project Executing Agency, shall be responsible for the overall execution of the Project. RDA shall be responsible for implementation of the Project. The existing Project management unit established within RDA shall continue to be responsible for day-to-day management of the Project. The Additional General Manager, RDA, shall head the Project management unit as the Project director, and shall be assisted by an additional Project director, two (2) deputy Project directors, five (5) senior and chief engineers, an accountant, and supporting staff.
2. The PCC, consisting of representatives from the ERD, National Planning Department, RDA, JBIC, ADB, management and supervision consultants, and such other members as may be invited, with the Secretary, MOHRD, as the chairperson, shall continue to coordinate implementation of the sections financed by ADB and JBIC, and also those financed by the Borrower and/or other co-financiers. In particular, PCC shall coordinate and monitor the land acquisition, resettlement, environmental impact mitigation, technical standards, scheduling, and implementation of the recommendations of the mid-term review undertaken by ADB in August 2006 under the Initial Loan Agreement. The PCC shall meet as often as necessary, but at least two times a year. Unless the PCC members otherwise agree, the PCC meetings shall be held in Colombo.

Environment

3. The Borrower shall ensure, and cause MOHRD and RDA to ensure, that (i) the Project is designed, constructed, implemented, operated, and maintained in accordance with the Government's National Environmental Act. No. 47 of 1980, as amended, and ADB's *Environment Policy* (2002), (ii) the revised EMP is implemented in accordance with its terms so that all adverse environmental impacts during construction and operation of the Project highway are mitigated; and in the event of any unanticipated adverse environmental impacts, such impacts are reported to CEA and ADB, and remedial actions taken to mitigate the impacts in consultation with the affected persons, CEA and ADB, (iii) necessary staff and resources are provided to ESD to enable it to review, audit, and monitor the implementation of EMP, (iv) all contractors and the supervision contractors are provided with the approved EMP, environment impact assessment, and the summary environment impact assessment, and that the contractors implement the required mitigation measures as described in the EMP in a satisfactory manner, and report the implementation of the EMP on a regular basis, along with any deviation from the environment impact assessment, and (v) the management consultant submits a monitoring report every six (6) months to ADB and to CEA through the environmental monitoring committee.

Resettlement; Social Development

4. The Borrower shall ensure, and cause MOHRD and RDA to ensure, that all land acquisition, and relocation, resettlement and compensation of all persons who are adversely affected by the Project or who will be relocated as a consequence of the Project

Schedule 5

are promptly and efficiently carried out in accordance with the RIP, Borrower's laws, regulations, and policies, as applicable, and ADB's *Involuntary Resettlement Policy* (1995).

5. The Borrower shall ensure, and cause MOHRD and RDA to ensure, that (i) the independent external monitoring agency appointed by RDA continues to supervise and monitor the RIP, including the grievance procedures and resolution of disputed claims for compensation, (ii) RDA promptly implements the recommendations of the monitoring agency, and (iii) RDA extends the services of the monitoring agency until the completion of all compensation, resettlement and relocation of affected persons in accordance with the RIP.

6. Upon completion of the Project, the Borrower shall ensure, and cause MOHRD and RDA to ensure, that RDA executes a contract with an independent external agency under terms of reference agreed between the Borrower and ADB to identify and monitor the Project's development impacts including changes in land use, increased investment, and reduction in poverty. The terms of reference of such independent external agency shall also include a provision examining whether the affected persons regained or improved the livelihood and standard of living they enjoyed before the Project commenced.

7. The Borrower shall cause MOHRD and RDA to (i) implement the findings of, and the recommendations in, ADB's due diligence report dated August 2006 on involuntary resettlement process, (ii) fully implement the IRP and strengthen the management information system by taking into account recommendations from the gender study dated June 2006, and the independent external monitoring agency, (iii) expeditiously complete the infrastructure facilities at the last remaining resettlement site, i.e., Pemrockwatta, and hand it over to the local authorities by June 2008, (iv) promptly provide new title deeds for allotments at the resettlement sites and entitlement certificates to all affected persons whose properties were acquired under the Project, (v) in the event of any additional land acquisition during construction works, submit an addendum to RIP for ADB's approval, disclose it to the affected persons, and fully compensate the affected persons according to the RIP prior to continuing with follow-up construction works in the relevant section, (vi) in an exceptional or unforeseen situation, such as a landslide during construction which may endanger residences and other structures, relocate the affected persons urgently with immediate intimation to ADB, and fully compensate and, resettle if required, the affected persons soon thereafter according to the RIP, (vii) deposit promptly with the concerned local Court any statutory compensation and resettlement assistance, which is yet to be paid to affected persons due to reasons such as joint ownerships or disputed claims, (viii) in the event of any mishap or accident at the Project site, ensure that the party responsible for the accident will compensate the affected person in a prompt, equitable, and transparent manner, and (ix) provide necessary staff to ESD to enable it to review, audit, and monitor the implementation of RIP and the IRP.

Operations and Maintenance

8. Upon completion of the Project highway, the Borrower shall make suitable arrangements for operation and maintenance of the Project highway through the proposed expressway authority to be established by the Borrower for operation and maintenance of all highways/expressways.

Anticorruption

9. The Borrower shall ensure that all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of MOHRD, RDA, and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

10. The Borrower shall cause RDA to (i) disclose contract awards on RDA's website within 7 working days of the award of the contract, (ii) undertake necessary measures to create and sustain a corruption-free environment, (iii) ensure that the Borrower's Anticorruption Law and ADB's *Anticorruption Policy* (1998, as amended to date) are strictly enforced and are complied with during Project implementation, and (iv) conduct periodic inspections on the Project contractor's activities related to fund withdrawals and settlements.

Cofinancing

11. In the event the Borrower receives cofinancing for construction of any Borrower-financed section of the Project highway, the Borrower shall ensure co-financier's acceptance of the EMP, RIP, and IRP, and the unified approach to implementing and monitoring the entire Project in all the sections, and cause such co-financier to reach a suitable understanding with ADB.

Counterpart funding

12. The Borrower shall make available the funds, facilities, services, and other resources as shall be necessary or required, for timely completion of the Project, and shall furnish to ADB, promptly at its request, evidence satisfactory to ADB that such funds, facilities, services, and other resources are available for purposes related to the Project.

Reporting

13. The Borrower shall ensure, and cause MOHRD and RDA to ensure, that (i) the construction supervision consultant provides monthly reports to MOHRD, RDA, ERD, ADB, and other co-financiers, if any, which reports shall also include the status of implementation of RIP and IRP, and (ii) management consultant provides MOHRD, RDA, ERD, JBIC, ADB, and other co-financiers, if any, with brief monthly progress reports, based on detailed reports prepared by construction supervision consultants, for the entire Project.

14. Within three (3) months of the completion of the Project or such later date that ADB may agree for this purpose, the Project management unit assisted by the management consultant and construction supervision consultant shall prepare a Project completion report in a format acceptable to MOHRD, JBIC, ADB, and other co-financiers, if any.

Project Review

15. ADB and the Borrower through RDA shall undertake Project reviews twice a year to ensure effective Project implementation. The Borrower shall cause RDA to monitor Project implementation and keep ADB informed of any significant problems that may result in

the schedule not being met. ADB shall also undertake a review one (1) year after completion of the Project.

16. The Borrower shall ensure, and cause MOHRD and RDA to ensure, that the recommendations of the mid-term review conducted by ADB in August 2006 under the Initial Loan Agreement are implemented promptly.

Project Performance Management System

17. Within three (3) months of the Effective Date, the Borrower shall cause MOHRD and RDA to adopt a Project performance and management system based on the revised design and monitoring framework in consultation with ADB as set out in Appendix 1 to the RRP, and replace the earlier benefit monitoring and evaluation system. Within six (6) months of the Effective Date, the Borrower shall cause RDA to carry out the first survey in accordance with the Project performance and management system.