
LOAN NUMBER 3604-SRI(COL)
(Additional to Loan No. 2710-SRI and Loan No. 2711-SRI[COL])

LOAN AGREEMENT
(Ordinary Operations [Concessional])

(Jaffna and Kilinochchi Water Supply Project – Additional Financing Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 15 DECEMBER 2017

SRI 37378

LOAN AGREEMENT
(Ordinary Operations [Concessional])

LOAN AGREEMENT dated 15 December 2017 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a loan agreement dated 8 February 2011 between the Borrower and ADB ("Initial Ordinary Operations Loan Agreement"), ADB has made a loan to the Borrower from its ordinary capital resources in an amount of twenty million Dollars (\$20,000,000) for the purposes of the project described in Schedule 1 to the Initial Special Operations Loan Agreement;

(B) by a loan agreement dated 8 February 2011 between the Borrower and ADB ("Initial Special Operations Loan Agreement"), ADB has made a loan to the Borrower from its Special Funds resources in an amount in various currencies equivalent to forty-four million two hundred eighty-six thousand Special Drawing Rights (SDR44,286,000) for the purposes of the project described in Schedule 1 to the Initial Special Operations Loan Agreement;

(C) the Borrower has applied to ADB for two additional loans for the purposes of the Project described in Schedule 1 to the Ordinary Operations Loan Agreement (described in paragraph D of this Recital) below, such Project form part of the restructured project as described in the Schedule with ensuing changes to be incorporated through amendments to the Initial Ordinary Operations Loan Agreement and the Initial Special Operations Loan Agreement;

(D) by a loan agreement of even date herewith between the Borrower and ADB ("Ordinary Operations Loan Agreement"), ADB has made a loan to the Borrower from its ordinary capital resources in an amount of ninety-five million Dollars (\$95,000,000) for the purposes of the Project;

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

(F) ADB has agreed to make a concessional 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 the NWSDB;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of ADB's Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2017 ("Loan Regulations"), 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:

(a) Section 2.01(w) is deleted and the following is substituted therefor:

"Project Agreement" means the project agreement of even date herewith between ADB and the NWSDB, as such agreement may be amended from time to time; and such project agreement includes all schedules to the project agreement;

(b) The term "Project Executing Agency" appearing in Sections 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations shall be substituted by the term "NWSDB".

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations and the Ordinary Operations Loan Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of twenty-five million Dollars (\$25,000,000).

(b) The Loan has a principal repayment period of 20 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove 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 an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 1 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to NWSDB under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB.

(b) The Borrower shall cause the proceeds of the Loan to be applied exclusively 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 proceeds of the Loan shall be allocated and withdrawn 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, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to the Ordinary Operations Loan Agreement.

Section 3.04. Withdrawals from the Loan Account in respect of Works Services shall be made only on account of expenditures relating to:

- (a) Works which are 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) Works 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 shall be 30 June 2023 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out 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 Ordinary Operations Loan Agreement and the Project Agreement.

Section 4.02. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.03. (a) The Borrower shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.04. The Borrower shall take all actions which shall be necessary on its part to enable the Project Executing Agency 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.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan 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 Loan Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

ARTICLE V**Effectiveness**

Section 5.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: the execution and delivery of the Ordinary Operations Loan Agreement on behalf of the Borrower shall have been duly authorized by all necessary action and all conditions precedent to its effectiveness (other than a condition requiring the effectiveness of this Loan Agreement) shall have been fulfilled.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: that the Ordinary Operations Loan Agreement has been duly authorized, executed and delivered on behalf of the Borrower, and is legally binding in accordance with its terms.

Section 5.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI**Miscellaneous**

Section 6.01. Each of the Secretary of the Ministry of Finance and Mass Media, the Deputy Secretary to the Treasury and the Director General of the Department of External Resources of the Guarantor is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

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

For the Borrower

Secretary
Ministry of Finance and Mass Media
Colombo 1
Sri Lanka

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

Facsimile Numbers:

(94 11) 243-3349
(94 11) 244-7633

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

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 as of the day and year first above written and to be delivered at the principal office of ADB.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

DR. R. H. S. SAMARATUNGA
Secretary
Ministry of Finance and Mass Media
Colombo 01,
Sri Lanka.

By 
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
Authorized Representative
SRI WIDOWATI
COUNTRY DIRECTOR
SRI LANKA RESIDENT MISSION

SCHEDULE 1
Amortization Schedule

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Dollars)*
15 May 2023	625,000
15 November 2023	625,000
15 May 2024	625,000
15 November 2024	625,000
15 May 2025	625,000
15 November 2025	625,000
15 May 2026	625,000
15 November 2026	625,000
15 May 2027	625,000
15 November 2027	625,000
15 May 2028	625,000
15 November 2028	625,000
15 May 2029	625,000
15 November 2029	625,000
15 May 2030	625,000
15 November 2030	625,000
15 May 2031	625,000
15 November 2031	625,000
15 May 2032	625,000
15 November 2032	625,000
15 May 2033	625,000
15 November 2033	625,000
15 May 2034	625,000
15 November 2034	625,000
15 May 2035	625,000
15 November 2035	625,000
15 May 2036	625,000
15 November 2036	625,000
15 May 2037	625,000
15 November 2037	625,000
15 May 2038	625,000
15 November 2038	625,000
15 May 2039	625,000
15 November 2039	625,000
15 May 2040	625,000
15 November 2040	625,000
15 May 2041	625,000
15 November 2041	625,000
15 May 2042	625,000
15 November 2042	<u>625,000</u>
TOTAL	25,000,000

* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

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

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest Charge

3. The amount allocated to Category "Interest Charge" is for financing the interest 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 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, 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 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

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection Works, subject to a maximum amount equivalent to 20% of the Loan amount.

Condition for Withdrawals from Loan Account

7. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account until the Borrower has entered into a valid and legally binding Subsidiary Loan Agreement with the NWSDB upon terms and conditions satisfactory to ADB.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Works (Component A)	20,306,000	78% of total expenditure claimed*
2	Interest Charge	1,630,000	100% of amounts due
3	Unallocated	3,064,000	
	TOTAL	25,000,000	

* Subject to the condition for withdrawal described in paragraph 7 of Schedule 2.