
LOAN NUMBER 3651-SRI

LOAN AGREEMENT
(Ordinary Operations)

(Skills Sector Enhancement Program – Additional Financing)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 11 MAY 2018

SRI 42251

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 11 May 2018 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan from ADB's ordinary operations resources for the purposes of financing the Program described in Schedule 1 to the loan agreement referred to in Recital (B) below, and a separate concessional loan from its ordinary capital resources for the purposes of financing the Program;

(B) by a loan agreement of even date herewith ("Ordinary Operations [Concessional] Loan Agreement"), ADB has agreed to make a loan ("Concessional Loan") to the Borrower from ADB's ordinary capital resources in an amount of sixty million Dollars (\$60,000,000) for the purposes of financing the Program described in Schedule 1 to the Ordinary Operations [Concessional] Loan Agreement;

(C) by an agreement of even date herewith ("Grant Agreement"); ADB has agreed to make the proceeds of a grant from the Japan Fund for Poverty Reduction ("Grant") available to the Borrower in an amount of three million Dollars (\$3,000,000) for the purposes of financing the project described in Schedule 1 to the Grant Agreement;

(D) the Program will be carried out by the Borrower's Ministry of Skills Development and Vocational Training ("MSDVT"), and for this purpose the Borrower will make available to MSDVT the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of ADB's Ordinary Operations 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(tt) is deleted and the following is substituted therefor:

"Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as such description may be amended from time to time by agreement between ADB and the Borrower.

- (b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

- (c) Section 2.01(vv) is deleted and the following is substituted therefor:

"Program Executing Agency" means the entity responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Ordinary Operations [Concessional] Loan Agreement and Loan Regulations 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 forty million Dollars (\$40,000,000) 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 15 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 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:

- (a) LIBOR; and
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% 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 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 1 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 subsection (a) hereinabove 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 apply the proceeds of the Loan to the financing of expenditures on the Program in accordance with the provisions of this Loan 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. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 31 December 2021 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 of the Program, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to the Ordinary Operations [Concessional] Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed, the funds, facilities, services, land and other resources, as required, in addition to the proceeds of the Loan for the carrying out of the Program.

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

Section 4.04. (a) The Borrower shall (i) maintain accounts and records for the Program; (ii) prepare annual financial statements for the Program 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 Program 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 of FY2017, FY2018, FY2019 and FY2020, 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 Program 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 Program and the Borrower's financial affairs where they relate to the Program 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 4.05. As part of the reports and information referred to in Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB: (a) semiannual reports on the implementation of the Program, including the accomplishment of the DLIs, the carrying out of the Program Actions, progress towards the targets in design and monitoring framework, and the Eligible Expenditures; and (b) as ADB shall reasonably request, additional information in connection with the reports described in subsection (a) hereinabove and other information on Program implementation.

Section 4.06. (a) ADB and the Borrower shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) The Borrower shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Program, the performance of its obligations under this Loan Agreement, or the accomplishment of the purposes of the Loan.

(c) ADB and the Borrower shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Program or the Loan.

Section 4.07. The Borrower shall enable ADB's representatives to inspect the Program and any relevant records and documents.

ARTICLE V

Suspension; 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(m) of the Loan Regulations: the Borrower shall have failed to perform one or more of its obligations under the Ordinary Operations [Concessional] Loan Agreement and the Grant Agreement.

Section 5.02. The following are specified as additional events 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 Ordinary Operations [Concessional] Loan Agreement shall have been duly authorized by, and executed and delivered on behalf of, the Borrower, and all conditions precedent to its effectiveness, other than a condition requiring the effectiveness of this Loan Agreement, shall have been fulfilled.

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 Ordinary Operations (Concessional) Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and is legally binding upon the Borrower in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 10.02(d) of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. The Secretary, MOF&MM, Deputy Secretary to the Treasury, and the Director General, Department of External Resources of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 7.02. 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
The Secretariat Building
Colombo 1
Sri Lanka

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

Facsimile Numbers:

0094 112447633
0094 112484563

For ADB

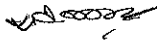
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2449.

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

By 

R.H.S. SAMARATUNGA
Secretary
Ministry of Finance & Mass Media

ASIAN DEVELOPMENT BANK

By 

SRI WIDOWATI
Country Director
Sri Lanka Resident Mission

SCHEDULE 1

Amortization Schedule

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 2023	3.333333
15 November 2023	3.333333
15 May 2024	3.333333
15 November 2024	3.333333
15 May 2025	3.333333
15 November 2025	3.333333
15 May 2026	3.333333
15 November 2026	3.333333
15 May 2027	3.333333
15 November 2027	3.333333
15 May 2028	3.333333
15 November 2028	3.333333
15 May 2029	3.333333
15 November 2029	3.333333
15 May 2030	3.333333
15 November 2030	3.333333
15 May 2031	3.333333
15 November 2031	3.333333
15 May 2032	3.333333
15 November 2032	3.333333
15 May 2033	3.333333
15 November 2033	3.333333
15 May 2034	3.333333
15 November 2034	3.333333
15 May 2035	3.333333
15 November 2035	3.333333
15 May 2036	3.333333
15 November 2036	3.333333
15 May 2037	3.333333
15 November 2037	<u>3.333343</u>
TOTAL	100.000000

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; and
- (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: (a) 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 (b) 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. Except as set out in this Schedule or as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Deposit Account

2. Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate the Deposit Account into which all withdrawals from the Loan Account shall be deposited.

3. The Borrower shall maintain separate records in respect of the Deposit Account in accordance with accounting principles acceptable to ADB.

Basis for Withdrawal from the Loan Account

4. (a) The Table sets out the Loan amounts allocated for withdrawal in respect of a DLI upon the Borrower's achievement of the corresponding DLI targets as set out in the DLI Matrix. The years set out in the Table are indicative. They do not restrict withdrawal on account of any DLI targets achieved whether ahead of, or later than, the indicated year, provided that such DLI targets are achieved on or before the Program Completion Date.

(b) ADB may, in consultation with the Borrower, reallocate the Loan amounts set out in the Table within the same DLI or from one DLI to any other DLI.

5. Prior to submitting any application for withdrawal from the Loan Account in respect of a DLI, the Borrower shall submit to ADB in accordance with the DLI Verification Protocol satisfactory evidence showing that: (a) such DLI has been fully achieved; or (b) for a DLI for which partial disbursement is allowed (as specified in the DLI Matrix), such DLI has been achieved to the extent required for partial disbursement under the DLI Verification Protocol. Upon ADB's confirmation that the DLI has been achieved in full or in part, the Borrower may submit to ADB an application for withdrawal of the corresponding Loan amount for such DLI.

Reconciliation

6. If the total Eligible Expenditures amount to less than the Loan amount withdrawn by the Borrower, the Borrower shall provide a refund to ADB for an amount equal to the extent of the shortfall within 6 months of the Program Completion Date.

TABLE*

Allocation and Withdrawal of Loan Proceeds (\$ million)					
Disbursement- Linked Indicators (DLI)	Total ADB Financing Allocation	Prior Results	2018	2019	2020
DLI 1	5.2	0.4	1.2	0.8	(i) 0.8 (ii) 2.0
DLI 2	7.2	(i) 0.8 (ii) 0.8	(i) 1.2 (ii) 0.4	(i) 1.2 (ii) 0.4	(i) 1.2 (ii) 0.4 (iii) 0.8
DLI 3	3.2	0.8	0.8	0.8	0.8
DLI 4	4.0	0.8	1.2	0.8	0.2
DLI 5	2.4			1.2	1.2
DLI 6	4.8	(i) 0.8 (ii) 0.4	(i) 0.8 (ii) 0.4	(i) 0.8 (ii) 0.4	(i) 0.8 (ii) 0.4
DLI 7	6.0	1.2	1.6	1.6	1.6
DLI 8	4.0	(i) 0.4 (ii) 0.8	(i) 0.4 (ii) 0.8	(i) 0.4 (ii) 0.8	0.4
DLI 9	3.2	(i) 0.4 (ii) 0.4	(i) 0.4 (ii) 0.4	(i) 0.4 (ii) 0.4	(i) 0.4 (ii) 0.4
TOTAL	40.0	8.0	9.6	10.0	12.4

* References to "(i)", "(ii)" and "(iii)" in this Table refer to corresponding partial disbursement conditions set out in Attachment 2 to Schedule 3 to the Ordinary Operations [Concessional] Loan Agreement.