
LOAN NUMBER 3706-SRI(COL)

TECHNICAL ASSISTANCE LOAN AGREEMENT
(Ordinary Operations [Concessional])
(Urban Project Preparatory Facility)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 17 JANUARY 2019

SRI 51297

**TECHNICAL ASSISTANCE LOAN AGREEMENT
(Ordinary Operations [Concessional])**

LOAN AGREEMENT dated 17 January 2019 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a technical assistance loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Project will be carried out by the Borrower's (i) Ministry of Provincial Councils -- Local Government and Sports ("MPCLGS"); and (ii) Ministry of Megapolis and Western Development ("MMWD"), and for this purpose the Borrower will make available to MPCLGS and MMWD the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) 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;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All 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.

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

- (a) "Consulting Services" means consulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;
- (b) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the Borrower and ADB;
- (c) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);

- (d) "MMWD" means the Borrower's Ministry of Megapolis and Western Development, or any successor thereto acceptable to ADB;
- (e) "MPCLGS" means the Borrower's Ministry of Provincial Councils -- Local Government and Sports, or any successor thereto acceptable to ADB;
- (f) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and set out in the Procurement Plan, and to be financed out of the proceeds of the Loan;
- (g) "PAM" means the project administration manual for the Project dated 16 July 2018 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;
- (h) "Procurement Plan" means the procurement plan for the Project dated 16 July 2018 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Policy, the Procurement Regulations, and other arrangements agreed with ADB;
- (i) "Procurement Policy" means ADB's Procurement Policy - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (j) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (k) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means MPCLGS and MMWD, or any successors thereto acceptable to ADB;
- (l) "Project Selection Criteria" means the selection criteria for Subprojects as set out in Appendix 2 of the PAM;
- (m) "Services" means Consulting Services and Nonconsulting Services;
- (n) "SPS" means ADB's Safeguard Policy Statement (2009);
- (a) "Subprojects" means the subprojects to be developed under the Urban Projects; and
- (o) "Urban Projects" means the following proposed ADB-financed projects:
 - (i) Secondary Towns Sustainable Development Project under MPCLGS;
 - and (ii) Western Megapolis Urban Infrastructure Development Project under MMWD.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of ten million Dollars (\$10,000,000).

(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 2 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 the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. 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.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn 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, 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 this Loan Agreement.

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

- (a) Services 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) Services 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 31 March 2022 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 Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.

Section 4.02. (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 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods, Works and Services, and any relevant records and documents.

ARTICLE V**Effectiveness**

Section 5.01. 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 9.04 of the Loan Regulations.

ARTICLE VI**Miscellaneous**

Section 6.01. Each of the Secretary of the Ministry of Finance and Mass Media, Deputy Secretary to the Treasury and Director General of the 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 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

Facsimile Numbers:

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

For ADB

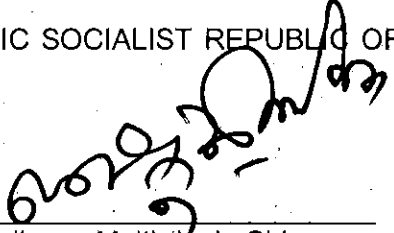
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

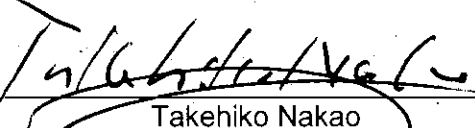
(632) 636-2444
(632) 636-2293.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names 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 
His Excellency Maithripala Sirisena
President

ASIAN DEVELOPMENT BANK

By 
Takehiko Nakao
President

SCHEDULE 1**Description of the Project**

1. The objective of the Project is to achieve high level of readiness for the priority Urban Projects.
2. The Project shall comprise:
 - (a) preparation of feasibility studies and detailed engineering designs for Subprojects; and
 - (b) provision of implementation support, including bidding documents, safeguard documents, and gender action plans, for the Urban Projects.
3. The Project is expected to be completed by 30 September 2021.

SCHEDULE 2

Amortization Schedule

<u>Payment Due Date</u>	<u>Payment of Principal</u> (Expressed in Dollars)*
15 November 2023	250,000
15 May 2024	250,000
15 November 2024	250,000
15 May 2025	250,000
15 November 2025	250,000
15 May 2026	250,000
15 November 2026	250,000
15 May 2027	250,000
15 November 2027	250,000
15 May 2028	250,000
15 November 2028	250,000
15 May 2029	250,000
15 November 2029	250,000
15 May 2030	250,000
15 November 2030	250,000
15 May 2031	250,000
15 November 2031	250,000
15 May 2032	250,000
15 November 2032	250,000
15 May 2033	250,000
15 November 2033	250,000
15 May 2034	250,000
15 November 2034	250,000
15 May 2035	250,000
15 November 2035	250,000
15 May 2036	250,000
15 November 2036	250,000
15 May 2037	250,000
15 November 2037	250,000
15 May 2038	250,000
15 November 2038	250,000
15 May 2039	250,000
15 November 2039	250,000
15 May 2040	250,000
15 November 2040	250,000
15 May 2041	250,000
15 November 2041	250,000
15 May 2042	250,000
15 November 2042	250,000
15 May 2043	<u>250,000</u>
Total	10,000,000

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

SCHEDULE 3

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 with Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS				
Number	Item	Total Amount Allocated for ADB Financing (\$)		Basis for Withdrawal from the Loan Account
		Category	Subcategory	
1	Consulting Services	7,552,000		
1a	Secondary Towns (25) under MPCLGS Component		3,500,000	85.5% of total expenditure claimed
1b	Strategic Cities (4) under MMWD Component		4,052,000	85.5% of total expenditure claimed
2	Incremental Administrative Costs	1,200,000		
2a	Secondary Towns (25) under MPCLGS Component		600,000	60% of total expenditure claimed
2b	Strategic Cities (4) under MMWD Component		600,000	60% of total expenditure claimed
3	Interest Charge	301,000		
3a	Secondary Towns (25) under MPCLGS Component		142,000	100% of amounts due
3b	Strategic Cities (4) under MMWD Component		159,000	100% of amounts due
4	Unallocated	947,000		
	TOTAL	10,000,000		

SCHEDULE 4**Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.

Procurement

2. The Borrower shall ensure that:
- (a) the procurement of Services is carried out in accordance with the Procurement Policy and the Procurement Regulations;
 - (b) Services shall be procured based on the detailed arrangements set forth in the Procurement Plan, including the procurement and selection methods, the type of bidding documents, and ADB's review requirements. The Borrower may modify the detailed arrangements set forth in the Procurement Plan only with the prior agreement of ADB, and such modifications must be set out in updates to the Procurement Plan; and
 - (c) (i) all Services obtained do not violate or infringe any industrial property or intellectual property right or claim of any third party; and (ii) all contracts for the procurement of Services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor, supplier, consultant or service provider with respect to the matters referred to in this subparagraph.

Safeguards

3. The Borrower shall ensure that the Project does not have any environmental, involuntary resettlement or indigenous peoples impacts within the meaning of the SPS. In the event that the Project does have such impacts, the Borrower shall take all steps necessary or desirable to ensure that the Project complies with the applicable laws and regulations of the Borrower and the SPS.

Selection of Subprojects

4. The Borrower shall ensure that that all Subprojects are selected in accordance with the Project Selection Criteria.

Gender and Development

5. The Borrower shall ensure that (a) the GAP is implemented in accordance with its terms; (b) adequate resources are allocated for implementation of the GAP; and (c) progress

on implementation of the GAP, including progress toward achieving key gender-outcome and output targets, are regularly monitored and reported to ADB.

Counterpart Support

6. The Borrower shall make available, through budgetary allocations or other means, all counterpart funds required for the timely and effective implementation of the Project, including funds required (a) under any Services contract; (b) to mitigate unforeseen environmental, resettlement and other social impacts; or (c) to meet any shortfall in the financing required to complete the Project.

Prohibited List of Investments

7. The Borrower will ensure that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Governance and Anticorruption

8. The Borrower shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

9. The Borrower shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.