

## PERIODIC FINANCING REQUEST

Date: 23 April 2015

To: Asian Development Bank  
6 ADB Avenue  
Mandaluyong City, Metro Manila

ATTENTION: Director General, South Asia Regional Department  
Fax No. (632) 636-2212

Sir:

RE: **Mahaweli Water Security Investment Program: Periodic Financing Request  
# 1**

Please refer to the Framework Financing Agreement for the Mahaweli Water Security Investment Program dated 23 April 2015 between Asian Development Bank (ADB) and the Democratic Socialist Republic of Sri Lanka (Sri Lanka). Expressions defined in the FFA shall have the same meanings herein.

Pursuant to the provisions of the FFA, Sri Lanka requests ADB to process this PFR for a tranche, in the form of a loan from its ordinary capital resources and a loan from its Special Funds resources. The proposed financing amounts, terms, conditions, and financing plan are specified in Attachment A hereto. Descriptions of the parts for which financing is hereby requested are set out in Attachments A hereto.

By: Democratic Socialist Republic of Sri Lanka

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Chandanie Wijayawardhana  
Acting Director General, Department of External Resources  
Ministry of Policy Planning, Economic Affairs, Child, Youth and Cultural Affairs

**Attachment A****Tranche  
Description**

The parts proposed for financing under the requested PFR include:

- (i) Part 1: Stage 1 of Upper Elahera Canal Project (UECP). This component will construct the first 6.2 kilometer (km) of open canals and associated structures of the Upper Elahera Canal (UEC).
- (ii) Part 2: Stage 1 of North West Province Canal Project (NWPCP). This component will construct the new Mahakithula and Mahakirula Reservoirs, two new 25 meter (m) tall earth gravity dams, the 27 km of open canals between the existing Wemedilla tank and the Mahakithula and Mahakirula Reservoirs, and a new 940 m tunnel using drill and blasting method.
- (iii) Part 3: Minipe Left Bank Canal Rehabilitation (MLBCR). This component will: (a) add upstream storage by heightening the headwork's weir by 3.5 meters to regulate generation inflows; (b) construct new automatic downstream-controlled intake gates to the left bank canal; (c) construct new emergency spill weirs to both left and right bank canals; and (d) rehabilitate the 74 km Minipe Left Bank canal, including regulator and spill structures.
- (iv) Part 4: Stage 1 of the Project Management, Design and Supervision Consultants (PMDSC). The PMDSC will: (a) finalize detailed designs and contract documents for all projects under the investment program; (b) provide contract management, construction supervision and general support to the government for investment program management; and (c) conduct due diligence and feasibility studies for Phase 2 of the North Central Province Canal Project.
- (v) Part 5: Improving System Efficiencies and Water Productivity (ISEWP). ISEWP will study and pilot initiatives for improving field, conveyance and management system efficiencies within the Mahaweli Development Program, encouraging farmers to grow higher-valued crops in the Yala season, and raising agricultural water productivity.

The Design and Monitoring Framework for this tranche is in Annex 1.

### Cost Estimates and Financing Plan

The total cost of the parts is estimated at \$190 million, inclusive of taxes, duties, and interest and other charges on the loans during construction. The detailed cost estimates and financing plan are in Annex 2.

(\$ million)				
Components/Parts	GOSL	ADB (OCR)	ADB (ADF)	Total
<b>A. Base Cost</b>				
1. New and improved water conveyance and storage infrastructure constructed				
UECP	4	12	9	25
NWPCP	14	34	24	72
MLBCRP	2	10	7	19
2. Systems for improving water resources management and productivity developed				
	8	2	21	31
3. Multi-disciplinary investment program management operational				
	1	-	1	2
<b>Subtotal (A)</b>	<b>29</b>	<b>58</b>	<b>62</b>	<b>149</b>
<b>B. Contingencies</b>				
	2	18	12	32
<b>C. Financing Charges during Implementation</b>				
	9	-	-	9
<b>Total (A+B+C)</b>	<b>40</b>	<b>76</b>	<b>74</b>	<b>190</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, GOSL = Government of Sri Lanka, MLBCRP = Minipe Left Bank Canal Rehabilitation Project, NWPCP = North Western Province Canal Project, OCR = ordinary capital resources, UECP = Upper Elahera Canal Project.

### Loan Amount and Terms

The request is for a loan of \$76 million from the ordinary capital resources (OCR) and \$74 million from the Special Funds resource. The OCR loan will have a 26-year term, including a grace period of 5 years, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility,<sup>1</sup> a commitment charge of 0.15% per year, and such other terms and conditions set forth in the relevant loan agreement. ADB's Special Funds will have a 25-year term, including a grace period of 5 years, and an interest rate of 2.0% per year, and such other terms and conditions as agreed in the FFA, and further supplemented under the loan agreement.

### Period of Loan Utilization

The parts are expected to be completed by 31 December 2019. The closing date of the loans will be on or before 30 June 2020.

<sup>1</sup> The interest includes a maturity premium of 10 basis points. This is based on the above loan terms and the government's choice of repayment option and dates.

**Advance Contracting**

Advance contracting is requested for the following:

- (i) MLBCR: MLBCR-ICB-1 (\$6.14 million including taxes and duties) for: (a) heightening the Minipe Anicut crest level by four meters; (b) rehabilitating the left bank canal's head regulator and desilting facilities; (c) providing flow measurement and overflow spills in the left and right canals; and (d) providing other associated minor civil and mechanical works to the headworks.
- (ii) UECP: UEC-ICB-1 (\$27.23 million including taxes and duties) for constructing new channels for the first 6.2 km of the UECP.
- (iii) NWPCP: NWPC-ICB-1 (\$52.41 million including taxes and duties) for constructing the Mahakithula Reservoir and Mahakirula Reservoir, associated facilities, a link canal between Mahakithula Reservoir and Mahakirula Reservoir, and a 940 meter long tunnel.
- (iv) PMDSC (\$25 million including taxes and duties, QBCS 90:10) who will be responsible for: finalizing detailed designs for all projects under the investment program, contract management, construction supervision, general support to the government for investment program management, and due diligence and feasibility studies for Phase 2 of NCPCP.
- (v) Office Equipment and Vehicles (\$2.25 million including taxes and duties, shopping) to purchase office furniture, IT equipment, and vehicles for the establishment of the program management offices.
- (vi) Field Office Upgrading (\$150,000 including taxes and duties, works) using forced account to upgrade field offices to accommodate the PIUs and PMDSC.

**Retroactive Financing**

Retroactive financing is requested for eligible expenditures incurred for consulting services and procurement of goods, services and civil works, project management, and project administration not exceeding the amount of 20% of the relevant loan amounts, incurred before loan effectiveness, but not earlier than 12 months before the signing of the relevant legal agreement.

**Implementation Arrangements**

The Executing Agency will be the Ministry of Mahaweli Development and Environment. Detailed implementation arrangements are described in the Facility Administration Manual.

**Procurement and Consulting Services**

The procurement plan is attached as Annex 3. Terms of reference for the engagement of advisors under this tranche are included in the Facility Administration Manual.

**Confirmation of Continuing Validity of and Adherence to Provisions of FFA, Previous Agreements, and the Design and Monitoring Framework**

Sri Lanka confirms that the understandings set out in the FFA have been adhered, and remain true to date.

**Readiness of the Project for Implementation**

- (i) MMDE has established a Program Management Unit and three Project Implementation Units. These units are fully operational.
- (ii) Feasibility studies, design reports, safeguard documents, engineering designs and economic assessments have been prepared for Tranche 1. These have been approved by MMDE.
- (iii) The procurement of three civil works packages that have been approved by ADB for advance contracting was initiated in May 2015.
- (iv) Recruitment and selection of the Program Management, Design and Supervision Consultant has been delegated to ADB. Recruitment was initiated in October 2014 and selection occurred in May 2015. Mobilization of the consultant is expected in July 2015.

**Safeguards**

Tranche 1 is categorized as A for environment and B for resettlement. As part of the investment program and Tranche 1 preparation, the following documents have been prepared:

- (i) Environment Assessment Review Framework (Annex 4);
- (ii) Environmental Impact Assessment (EIA) for the UECP (Annex 5);
- (iii) EIA for NWPCP (Annex 6);
- (iv) Initial Environmental Examination for MLBCR (Annex 7);
- (v) Resettlement Framework (Annex 8); and
- (vi) Resettlement Plan for NWPCP (Annex 9).