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வெளிநாட்டு வளங்கள் திணைக்களம்
Department of External Resources

ජාතික ප්‍රතිපත්ති හා ආර්ථික කටයුතු අමාත්‍යාංශය
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தேசிய கொள்கைகள் மற்றும் பொருளாதார அலுவல்கள் அமைச்சு,
செயலகம் (3 ஆம் மாடி), த. பெ. இல. 277, கொழும்பு 00100, இலங்கை
Ministry of National Policies and Economic Affairs
The Secretariat (3rd Floor), P.O. Box 277, Colombo 00100, Sri Lanka

Web Site:www.erd.gov.lk

e-mail: info@erd.gov.lk

මගේ අංකය
எனது இல.
My No

ER/TA/FN/38

මබේ අංකය
உமது இல
Your No.

දිනය
திகதி.
Date.

27th March 2017

Ms. Sri Widowati
Country Director
Sri Lanka Resident Mission
Asian Development Bank

Dear Ms. Widowati

Loan No. 3370-SRI: Small and Medium-Sized Enterprises Line of Credit Project
- Amendment to Loan Agreement

This refers to the loan agreement dated 23rd February 2016 in relation to the Small and Medium-Sized Enterprises Line of Credit Project.

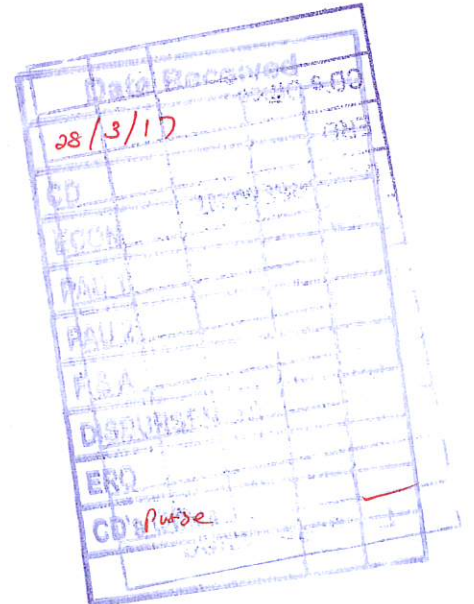
We are forwarding herewith the attached original of the Amendment to the Loan Agreement duly signed by the Secretary to the Ministry of Finance on 24th March 2017 for your records.

Yours sincerely

Udeni Udugahapattuwa

Director/ADB Division
For Director General

Copy: Director General, Department of Development Finance



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பணிப்பாளர் நாயகம்
Director General

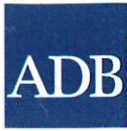
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தொலை நகல்
Fax

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7 March 2017

Minister
Ministry of Finance
Colombo 1
Sri Lanka

Dear Mr. Karunanayake:

Subject: **Loan No. 3370-SRI: Small and Medium-Sized Enterprises Line of Credit Project
Amendment to Loan Agreement**

1. We refer to the Loan Agreement dated 23 February 2016 between the Democratic Socialist Republic of Sri Lanka ("Borrower") and Asian Development Bank ("ADB") for the captioned project ("Loan Agreement"). All capitalized terms used but not defined herein shall have the meaning given thereto in the Loan Agreement, unless the context requires otherwise.

2. Following a request from the Borrower dated 30 January 2017, ADB approved, on 6 February 2017, changes in the Project concerning the auction mechanism and development targets. To give effect to the changes, ADB proposes that the Loan Agreement be amended as follows:

(a) Section 2.03 shall be deleted and replaced by:

Section 2.03. (a) The Loan comprises 2 tranches of \$12.5 million each and 2 tranches of \$37.5 million each.

(b) For each tranche of \$12.5 million:

(i) 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;

(ii) Interest and other charges on each tranche of the Loan shall be payable semiannually on 1 June and 1 December in each year; and

- (iii) The Borrower shall repay in full the principal amount of the Loan withdrawn from the Loan Account on the 20th Interest Payment Date for that tranche (i.e. on or around 10 years pursuant to the withdrawal of that tranche). For the avoidance of doubt, the final repayment date shall be on or before 1 December 2026.

(c) For each tranche of \$37.5 million:

- (i) 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;
- (ii) Interest and other charges on each tranche of the Loan shall be payable semiannually on 1 June and 1 December in each year; and
- (iii) The Borrower shall repay in full the principal amount of the Loan withdrawn from the Loan Account on the 20th Interest Payment Date for that tranche (i.e. on or around 10 years pursuant to the withdrawal of that tranche). For the avoidance of doubt, the final repayment date shall be on or before 1 December 2028.

(b) In Schedule 2:

- (i) Paragraph 4 shall be deleted and replaced by:

4. The Steering Committee and ADB shall review the effectiveness of the auction mechanism in achieving the Project objectives after the first year of implementation (i.e. upon the completion of the first two Auctions), and may agree after this review or at any later time to modifications to the Auction Arrangement as appropriate. In the event the findings of this or any subsequent review suggest that there are concerns with the effectiveness of the auction mechanism, the Borrower and ADB may agree to convert the auction mechanism into the conventional approach of allocating the remainder of the \$100 million equivalent of the Loan proceeds to PFIs using the CBSL's most recent 6-month average weighted deposit rate as the interest rate.

Pursuant to agreement on the conversion and related arrangements, this Loan Agreement and the PAM shall be revised to reflect such arrangements. Following the first year of implementation, the Steering Committee and ADB have reviewed the auction mechanism and agreed to (a) discontinue the use of the auction mechanism after the first 2 Auctions; and (b) apply the conventional approach for the remaining portion of the Loan above-mentioned from the effective date of the amendments to the Loan Agreement, the Project Agreement and the PAM. For such remaining portion of the Loan, each PFI cannot participate in a subsequent allocation until at least 80% of the previous allocation to the PFI has been disbursed as Subloans. For the first allocation in around March 2017, \$37.5 million equivalent will be available; for the second allocation in around September 2017, the balance of \$37.5 million equivalent will be available. In the event insufficient funds remain to meet all the PFIs requests, such funds shall be allocated among the PFIs on a pro rata basis. The Steering Committee and ADB shall continue to oversee Project implementation. Further reviews may also be carried out as appropriate during Project implementation.

(ii) Paragraph 5 shall be deleted and replaced by:

5. (a) For each Auction, no withdrawal shall be made from the Loan Account for a PFI until:

- (i) a Project Agreement, in form and substance satisfactory to ADB, has been duly executed and delivered on behalf of ADB and the PFI; and
- (ii) the PFI has provided ADB a legal opinion specifying that the Project Agreement has been duly authorized, executed and delivered on behalf of the PFI, and is legally binding on the PFI in accordance with its terms.

(b) For the remaining portion of the Loan, each PFI may request between \$1 million equivalent and \$5 million equivalent on a semiannual basis with the most recent 6-month average weighted deposit rate as published by the CBSL and confirmed by ADB prior to the allocation as the interest rate.

(iii) Subparagraph 7(j) shall be deleted and replaced by:

(j) in the event the PFI failed to fully disburse the funds as Subloans (i) within 21 months from the date of the applicable Auction; or (ii) within 18 months from the receipt of the allocated funds for the remaining portion of the Loan, such PFI shall pay the Borrower a penalty of 50% of the borrowed interest rate on the

undisbursed portion of the funds (such penalty being in addition to the borrowed interest rate).

(iv) Paragraph 8 shall be deleted and replaced by:

8. ADB shall confirm prior to Loan effectiveness the participation of PFIs in the first of 8 Auctions of the Project based on its assessment of the PFIs' compliance with the eligibility criteria described in paragraph 7 of this Schedule. Further to such confirmation and allocation of SLR equivalent of Loan proceeds to such PFIs under the Auction Arrangement, ADB shall enter into a Project Agreement with each such PFI. Such Project Agreement is based on a standard form developed by ADB for the Project. For the second and subsequent Auctions, ADB in consultation with the Steering Committee may invite additional prospective PFIs to participate in the Project subject to an assessment of the PFIs' compliance with the eligibility criteria described in paragraph 7 of this Schedule. Similar Project Agreements shall be entered into with such PFIs pursuant to the allocation of SLR equivalent of Loan proceeds to those under the Auction Arrangement. Following the discontinuance of the auction mechanism described in paragraph 4 of this Schedule, Project Agreements with applicable PFIs shall be revised accordingly.

(v) In subparagraph 15(a), "10%" shall be deleted and replaced by "20%".

(vi) In subparagraph 15(b), "5%" shall be deleted and replaced by "20%".

(vii) In subparagraph 15(c), "50%" shall be deleted and replaced by "70%".

3. Save and except to the extent set out above and in the attachment hereto, the Loan Agreement remains unchanged.

4. Pursuant to ADB's Public Communications Policy on disclosure and exchange of information, the amendments to the Loan Agreement will be posted on ADB's website within 2 weeks from the date that the amendments become effective, after removing any information that falls within the PCP exceptions as specified by the Borrower.

5. Please indicate the Borrower's concurrence to the amendments set out in paragraph 2 of this letter agreement and the attachment hereto and to the terms of this letter agreement by countersigning each of the two originals of this letter agreement in the space indicated below. Please retain one signed original of this letter agreement for your records and return the other to ADB. The proposed amendments shall take effect on the date of receipt by ADB of a signed original of this letter agreement.

Yours sincerely,

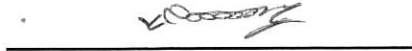


Sri Widowati
Country Director
Sri Lanka Resident Mission

- A. Accepted and agreed.
- B. Confirmed that the amendments to the Loan Agreement do not contain information falling within the PCP exceptions.

For and on behalf of
Democratic Socialist Republic of Sri Lanka

Name:



Designation:

Date:

24/03/2017

DR. R. H. S. SAMARATUNGA
Secretary
Ministry of Finance
Colombo 01
Sri Lanka.

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