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LOAN NUMBER 3119-SRI

LOAN AGREEMENT  
(Ordinary Operations)

(Skills Sector Enhancement Program – Results-Based Lending)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 27 MAY 2014

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SRI 42251

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 27 May 2014 between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Borrower”) and ASIAN DEVELOPMENT BANK (“ADB”).

WHEREAS

(A) by a loan agreement of even date herewith (“Special Operations Loan Agreement”), ADB has agreed to lend to the Borrower from its Special Funds resources an amount in various currencies equivalent to thirty two million six hundred thousand Special Drawing Rights (SDR32,600,000) for the purposes of the Program described in Schedule 1 to the Special Operations Loan Agreement (“Program”);

(B) the Borrower has also applied to ADB for a loan from ADB’s ordinary capital resources for the purposes of the Program; and

(C) 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 hereto agree as follows:

**ARTICLE I**

**Loan Regulations; Definitions**

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB’s Ordinary Capital Resources, dated 1 July 2001 (“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(49) is deleted and the following is substituted therefor:

49. The term “Program” means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof 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(51) is deleted and the following is substituted therefor:

51. The term “Program Executing Agency” means the entity or entities 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”.

(e) Section 3.03 is deleted and the following is substituted therefor:

**Commitment Charge; Credit; Maturity Premium.**

(a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

(c) The Borrower shall pay a maturity premium at the rate specified in the Loan Agreement, which maturity premium shall remain fixed for the term of the Loan. ADB shall add the maturity premium to the interest payable by the Borrower.

(f) Section 3.06 is deleted and the following is substituted therefor:

**Rebate.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the

amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

- (g) Section 3.07 is deleted and the following is substituted therefor:

**Surcharge.** (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations and the Special Operations Loan Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires. "Allocation and Withdrawal Table" means the table set forth in Attachment 2 of Schedule 3 to this Loan Agreement.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of fifty million Dollars (\$50,000,000) 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 21 years, and a grace period as defined in paragraph (c) of this Section.

(c) The term “grace period” as used in paragraph (b) of this Section 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;
- (b) 0.60% as determined by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations; and
- (c) a maturity premium 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. The Borrower shall pay the interest charge and other charges on the Loan 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 paragraph (a) of this Section 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 (a) cause the Loan proceeds to be applied to the financing of expenditures on the Program in accordance with the provisions of this Loan Agreement; and (b) ensure that the Loan proceeds are used for their intended purposes in accordance with the generally accepted principles of economy, efficiency, transparency and accountability.

Section 3.02. The proceeds of the Loan shall be 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 Borrower shall ensure that no Loan proceeds are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Section 3.04. The Borrower shall ensure that in any FY the amount of Eligible Expenditures minus other development partners' cofinancing to the Program is at least equal to or exceeds the proceeds of the Loan withdrawn by the Borrower in the same FY.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2017 or such other date as may from time to time be agreed between the Borrower and ADB.

### **ARTICLE IV**

#### **Particular Covenants**

Section 4.01. (a) The Borrower shall cause the Program to be carried out with due diligence, economy, efficiency, transparency and accountability and in conformity with sound applicable technical, financial, business and development practices

(b) 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 Special Operations Loan Agreement and shall ensure that the actions set out in the PAP are implemented in a timely and efficient manner.

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 accounting principles 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 international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, compliance with the financial covenants, including Section 3.04, of this Loan Agreement and the PAP) 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 close of each of FY2014, FY2015, and FY2016, copies of such audited financial statements, audit report and management letter, all in the English language, for the previous calendar year 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 30 days of the date of their receipt 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. (a) 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 all such reports and information as ADB shall reasonably request concerning the implementation of the Program, including the accomplishment of the DLIs and carrying out of the actions set out in the PAP.

(b) Without limiting the generality of the foregoing or Section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the DLIs and carrying out of the actions set out in the PAP.

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.

## **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(l) of the Loan Regulations: the Borrower shall have failed to perform one or more of its obligations under the Special Operations Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: the event 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 Special Operations Loan Agreement shall have been duly 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 Special Operations Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, 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 the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.



**ARTICLE VII**

**Miscellaneous**

Section 7.01. The Secretary, MOFP, Deputy Secretary to the Treasury, and the Director General, Department of External Resources, MOFP of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Secretary  
Ministry of Finance and Planning  
The Secretariat Building  
Colombo 1  
Sri Lanka

Copy to: Director General, Department of External Resources

Facsimile Number:

0094 112447633.

For ADB

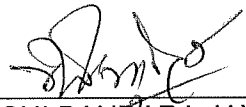
Asian Development Bank  
6 ADB Avenue  
Mandaluyong City  
1550 Metro Manila  
Philippines

Facsimile Numbers:

(632) 636-2444  
(632) 636-2407.

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   
PUNCHI BANDARA JAYASUNDERA  
Secretary  
Ministry of Finance and Planning

ASIAN DEVELOPMENT BANK

By   
SRI WIDOWATI  
Country Director  
Sri Lanka Resident Mission

## SCHEDULE 1

### Amortization Schedule (Skills Sector Enhancement Program – Results-Based Lending)

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 2019	2.380952
15 November 2019	2.380952
15 May 2020	2.380952
15 November 2020	2.380952
15 May 2021	2.380952
15 November 2021	2.380952
15 May 2022	2.380952
15 November 2022	2.380952
15 May 2023	2.380952
15 November 2023	2.380952
15 May 2024	2.380952
15 November 2024	2.380952
15 May 2025	2.380952
15 November 2025	2.380952
15 May 2026	2.380952
15 November 2026	2.380952
15 May 2027	2.380952
15 November 2027	2.380952
15 May 2028	2.380952
15 November 2028	2.380952
15 May 2029	2.380952
15 November 2029	2.380952
15 May 2030	2.380952
15 November 2030	2.380952
15 May 2031	2.380952
15 November 2031	2.380952
15 May 2032	2.380952
15 November 2032	2.380952
15 May 2033	2.380952
15 November 2033	2.380952

15 May 2034	2.380952
15 November 2034	2.380952
15 May 2035	2.380952
15 November 2035	2.380952
15 May 2036	2.380952
15 November 2036	2.380952
15 May 2037	2.380952
15 November 2037	2.380952
15 May 2038	2.380952
15 November 2038	2.380952
15 May 2039	2.380952
15 November 2039	2.380968
<b>TOTAL</b>	<b>100.000000</b>

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.

(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: (i) 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 (ii) 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**

### **Withdrawal of Loan Proceeds**

#### General

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

#### Deposit Account

2. Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate the Deposit Account at Central Bank of Sri Lanka into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be managed and liquidated in accordance with terms and conditions satisfactory to ADB.

3. The Borrower shall maintain separate accounts and records in respect of the Deposit Account in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Borrower shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.

#### Basis for Withdrawal from the Loan Account

4. The initial application for withdrawal from the Loan Account shall be submitted after successful verification of achievement of prior results as stated in the DLI Matrix.

5. Prior to submitting any application for withdrawal from the Loan Account for a DLI, the Borrower shall submit for ADB's approval satisfactory evidence as required under the Verification Protocol that such DLI has been fully achieved, and unaudited interim financial statements for the period specified in the PID. After ADB's confirmation that the DLI has been achieved, and that, over the period covered by the unaudited interim financial statements, the Borrower's spending on Eligible Expenditures exceeds disbursements of the Loan the Borrower may submit an application for withdrawal of the corresponding Loan proceeds for such DLI.

6. No withdrawal shall be made or permitted from the Loan Account for any DLI unless ADB is satisfied that the Borrower continues to comply with all DLIs that were previously met and for which Loan proceeds have been disbursed.

7. Throughout the Program period, the Borrower shall submit any information on the Program that ADB may require from time to time to assess and calculate the value of Eligible Expenditures.

Application for withdrawal from the Loan Account

8. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB; and

(b) Prior to the submission of the first withdrawal application, the Borrower shall submit to ADB sufficient evidence of the authority of the person(s) who shall sign the withdrawal applications on behalf of the Borrower, together with the authenticated specimen signatures of each authorized person.

Reallocation

9. Notwithstanding the allocation of Loan proceeds set forth in Allocation and Withdrawal Table, if the amount of Loan proceeds allocated to any DLI appears to be insufficient or excessive for any reason whatsoever, the Borrower and ADB may by agreement reallocate such shortfall or excess amount to any other DLI.

Disbursement Procedures

10. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook. The Borrower shall submit the supporting documents specified in paragraph 5 of this Schedule 2 in lieu of the supporting documents required under the Loan Disbursement Handbook.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Skills Sector Enhancement Program – Results-Based Lending)</b>				
<b>DLRs</b>	<b>Total Amount Allocated for ADB Financing (USD)</b>			
	<b>Financing of prior results</b>	<b>October 2014</b>	<b>May 2015</b>	<b>May 2016</b>
DLR1				2,500,000
DLR2	2,500,000	1,000,000	1,500,000	1,000,000
DLR3		2,000,000	2,000,000	1,500,000
DLR4		1,000,000	2,000,000	1,500,000
DLR5	1,000,000	2,000,000	2,000,000	2,000,000
DLR6			2,500,000	2,000,000
DLR7		1,000,000	2,000,000	1,500,000
DLR8	(i) 2,500,000 (ii) 500,000 (iii) 1,000,000	1,000,000	1,000,000	1,000,000
DLR9	2,500,000	(i) 1,000,000 (ii) 1,000,000	(i) 1,000,000 (ii) 1,000,000	(i) 1,000,000 (ii) 1,000,000
<b>Total</b>	<b>10,000,000</b>	<b>10,000,000</b>	<b>15,000,000</b>	<b>15,000,000</b>