

**CONFIDENTIAL COPY**

A.I.D. Loan Number 383-T-029B  
A.I.D. Project Number 383-0078

*File 383-0078  
POCAD 595*

*Distributed  
FM  
BC  
PNS  
S+T*

AMENDMENT NUMBER TWO

TO

PROJECT LOAN AGREEMENT

BETWEEN

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

AND

THE UNITED STATES OF AMERICA

FOR

MAHAWELI SECTOR SUPPORT

Dated: April 20, 1983

AMENDMENT NUMBER TWO

TO

PROJECT LOAN AGREEMENT

Dated: April 20, 1983

AMENDMENT NUMBER TWO, between the Democratic Socialist Republic of Sri Lanka ("Cooperating Country") and the United States of America, acting through the Agency for International Development ("A.I.D."):

WHEREAS, the Cooperating Country and A.I.D. entered into a Loan Agreement for the Mahaweli Sector Support Program dated May 29 1981, and an Amendment Number One dated March 26, 1982; and

WHEREAS, the parties now desire to increase the amount of the Loan, and provide for use of the increased Loan in the furtherance of the Program;

NOW, THEREFORE, the Cooperating Country and A.I.D. hereby amend the Loan Agreement as follows:

1. Article 3: Financing

SECTION 3.1 The Loan Delete the words "an amount not to exceed Thirty-three Million, Eight Hundred Thousand United States ("U.S.") dollars (\$33,800,000) ("Loan")" and substitute in lieu thereof the words "an amount not to exceed Forty-one Million, Three Hundred Forty-three Thousand United States ("U.S.") dollars (\$41,343,000) ("Loan")".

2. Article 5: Conditions Precedent to Disbursement

Add the following new Section 5.5:

"SECTION 5.5 First Disbursement under Amendment Number Two

"(a) Prior to the first disbursement under Amendment Number Two to this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement thereunder will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an opinion of counsel acceptable to A.I.D. that the said Amendment Number Two has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country, and that it and the Agreement as thereby amended constitute valid and legally binding obligations of the Cooperating Country in accordance with all of their terms.

"(b) If the condition specified in this Section has not been met

within ninety (90) days from the date of Amendment Number Two or such later date as A.I.D may agree to in writing, A.I.D., at its option, may terminate this Agreement, as amended, by written notice to the Cooperating Country. A.I.D will promptly notify the Cooperating Country when it has determined that the condition precedent specified in this Section has been met."

3. Annex I. Amplified Program Description

Delete Table 1, Allocation of Rupees for 1981, and substitute the attached Table 1 (Revised), Allocation of Rupees for 1981. Table 1 (Revised) reflects actual disbursements from the loan for 1981 activities.

Delete Table 2, Allocation of Rupees for 1982, and substitute the attached Table 2 (Revised), Allocation of Rupees for 1982. Table 2 (Revised) incorporates agreed revisions in the annual program for 1982.

Add a new Table 3, Allocation of Rupees for 1983, which is hereto attached. Table 3 sets forth the agreed annual program for 1983.

All other terms and conditions of said Project Loan Agreement dated May 29, 1981 as amended by Amendment Number One shall remain in full force and effect.

THE DEMOCRATIC SOCIALIST  
REPUBLIC OF SRI LANKA

UNITED STATES OF AMERICA

By: W.M. Tilakaratne  
Name: W.M. Tilakaratne  
Title: Secretary  
Ministry of Finance & Planning

By: John H. Reed  
Name: John H. Reed  
Title: American Ambassador

TABLE 1 (Revised)

MAHAWELI SECTOR SUPPORT  
ALLOCATION OF RUPEES FOR 1981

BUDGET FOR 1981  
(Rupees Millions)

<u>MAJOR ACTIVITY</u>	TOTAL	<u>FOREIGN DONOR</u>	<u>COOPERATING COUNTRY</u>	<u>PORTION OF COOPERATING COUNTRY ALLOCATED TO LOAN 1/</u>
1. System H (Market roads, social and agricultural infrastructure, on-farm development, settlement and settler services, irrigation system)	354	115.5	238.5	27.7
2. Minipe Anicut and Trans-basin Canal Complex (for work associated with the RB Transbasin Canal from Minipe Anicut to Ratkinda Reservoir)	335	165	170	65.9
3. System B (Land development construction of roads, tank improvement, surveys and services, building construction, and irrigation system)	90	25	65	18.7
4. System C (irrigation works, building construction services and maintenance)	180	92	88	43
5. Relocation of families affected by Headworks	37	-	37	1
6.Total	996	397.5	598.5	176.3

1/ In support only of expenditures from June 1, 1981 - December 31, 1981. See also footnote 2 on Table 3.

TABLE 2 (Revised)

MAHAWELI SECTOR SUPPORT  
ALLOCATION OF RUPEES FOR 1982

BUDGET FOR 1982  
(Rupees Millions)

<u>MAJOR ACTIVITY</u>	<u>TOTAL</u>	<u>FOREIGN DONOR</u>	<u>COOPERATING COUNTRY</u>	<u>PORTION OF COOPERATING COUNTRY ALLOCATED TO LOAN</u>
1. System H (Irrigation infrastructure, roads and bridges, drainage, social infrastructure including water and power, buildings, on farm development, settlement services and support, reforestation, and maintenance)	299	120	179	75
2. System B (Social infrastructure, market roads, irrigation works, buildings, surveys, land development, tank bed clearance experimental farm, and settler services for Zones 1 and 5)	509	370	139	25
3. System C (Irrigation channel and reservoir work and buildings in Zones 2 and 3)	448	393	55	18
4. System G (Irrigation and road development, project buildings and workshop, land clearing, settler support)	36	12	24	9
5. Minipe Anicut/Transbasin Canal Complex (for work associated with the RB transbasin canal from Minipe Anicut to Ratkinda Reservoir)	317	184	133	119
6. Sub-total	1609	1079	530	246
7. Unallocated 1/				31
8. Total	1609	1079	530	277 2/

1/ The amount unallocated may subsequently be allocated to the major activities in Table 2 or to additional major activities by mutual agreement of the parties effected by jointly agreed-upon Implementation Letters.

2/ Should disbursement from the Loan in support of expenditures for major activities eligible in 1981 and 1982 not equal the amount available in the loan, any portion of the loan not so disbursed shall remain available for disbursement in support of major activities eligible in 1983.

TABLE 3

MAHAWELI SECTOR SUPPORT  
ALLOCATION OF RUPEES FOR 1983

<u>MAJOR ACTIVITY</u>	<u>BUDGET FOR 1983</u> (Rupees Millions)			<u>PORTION OF</u> <u>COOPERATING COUNTRY</u> <u>ALLOCATED TO LOAN</u>
	<u>TOTAL</u>	<u>FOREIGN</u> <u>DONOR</u>	<u>COOPERATING</u> <u>COUNTRY</u>	
1. System 'H' (Roads & Bridges, Social and Agricultural infrastructure, Buildings, On-farm Development, Settlement & Settler services, Irrigation System, Reforestation, Inland Fisheries).	285	47	238	70
2. Minipe Anicut and Transbasin Canal Complex - (for work associated with the R.B., Transbasin Canal from Minipe Anicut to Ratkinda Reservoir).	175	155	20	10
3. System 'B' (Land Development, Construction of Roads, Tank Improvement, Surveys, Settlement & Settler services, Building Construction, Experimental farm, Inland Fisheries, Reforestation and Irrigation System in Zones 1 and 5).	827	689	138	97
4. System 'C' (Land Development, Construction of Roads, Tank Improvement, Surveys, Settlement & Settler Services, Building Construction, Reforestation Inland Fisheries and Irrigation System).	604	523	81	15
5. System 'G' (Land Development, Construction of Roads, Tank Improvement, Surveys, Settlement & Settler services, Building Construction, Reforestation, Inland Fisheries and Irrigation System).	61	25	36	14
6. Roads - (between System 'C' and System 'B').	169	90	79	59
7. Unallocated 1/				205
<b>TOTAL</b>	<b>2121</b>	<b>1529</b>	<b>592</b>	<b>470</b> 2/

1/ The amount unallocated may subsequently be allocated to the major activities in Table 3 or to additional major activities by mutual agreement of the parties effected by jointly agreed-upon Implementation Letters.

2/ Should disbursement from the Loan in support of expenditures for major activities eligible in 1981, 1982 and 1983 not equal the amount available in the loan, any portion of the loan not so disbursed shall remain available for disbursement in support of major activities eligible in 1984.

**CONFORMED COPY**

A.I.D. Loan Number 383-T-029 1

Project Number 383-0078

AMENDMENT NUMBER ONE  
TO  
LOAN AGREEMENT  
BETWEEN THE  
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA  
AND THE  
UNITED STATES OF AMERICA  
FOR  
MAHWELI SECTOR SUPPORT

Dated: March 26, 1982

AMENDMENT NUMBER ONE  
TO  
LOAN AGREEMENT  
FOR  
MAHAWELI SECTOR SUPPORT

Dated: March 26, 1982

BETWEEN

The Democratic Socialist Republic of Sri Lanka ("Cooperating Country")

AND

The United States of America, acting through the Agency for International Development ("A.I.D.").

WHEREAS, the Cooperating Country and A.I.D. entered into a Loan Agreement for the Mahaweli Sector Support Program, dated May 29, 1981, and

WHEREAS, the parties now desire to increase the amount of the Loan, provide for use of the increased Loan in the furtherance of the Program, and make certain modifications in the Loan Agreement,

NOW THEREFORE, the Cooperating Country and A.I.D. hereby amend the Loan Agreement as follows:

1. Article 3: Financing

SECTION 3.1. The Loan. Delete the words "not to exceed Eighteen Million, Eight Hundred Thousand United States ("U.S.") dollars (\$18,800,000) ("Loan")" and substitute in lieu thereof the words "an amount not to exceed Thirty-three Million, Eight Hundred Thousand United States ("U.S.") dollars (\$33,800,000) ("Loan")".

SECTION 3.3. Program Assistance Completion Date. Delete paragraphs (a) and (b) in their entirety and substitute the following:

(a) The "Program Assistance Completion Date" (PACD), which is June 30, 1984, or such other date as the Parties may agree to in writing, is the date by which the parties estimate that the specific Mahaweli Program activities supported by the Loan will have been implemented as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan in support of implementation of any Mahaweli Program activities subsequent to the PACD.

2. Article 5: Conditions Precedent to Disbursement

Add the following new Section 5.4.:

**SECTION 5.4. First Disbursement under Amendment Number One**

(a) Prior to the first disbursement under Amendment Number One to this Agreement, or to the issuance by A.I.D. of documentation pursuant to which disbursement thereunder will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., an opinion of counsel acceptable to A.I.D. that the said Amendment Number One has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country, and that it and the Agreement as thereby amended constitute valid and legally binding obligations of the Cooperating Country in accordance with all of their terms.

(b) If the condition specified in this Section has not been met within ninety (90) days from the date of Amendment Number One, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement, as amended, by written notice to the Cooperating Country. A.I.D. will promptly notify the Cooperating Country when it has determined that the condition precedent specified in this Section has been met.

**3. Article 7: Disbursement**

Delete the title of Article 7, and Sections 7.1 and 7.2 in their entirety, and substitute the following:

**Article 7: Annual Programming and Disbursements**

**SECTION 7.1. Annual Programming**

(a) The specific Program activities to be supported under the Loan in each calendar year, the levels of local currency expenditures to be budgeted for the selected activities by the Cooperating Country, and the physical outputs targeted thereby to be achieved, as well as the levels of local currency support to be provided under the Loan for the selected activities will be agreed upon by the Parties annually, and finalized, if possible, prior to the beginning of each fiscal year of the Cooperating Country. Except for the physical outputs targeted to be achieved, the results of the annual programming by the Parties will be set forth in an annual tabular supplement to Annex 1 to this Agreement. In accordance with Section 2.1 and Annex 2, Article A, the annual tabular supplements and any changes to them or to the program for any year may be formalized by Program Implementation Letters agreed upon by the Parties, without formal amendment of this Agreement.

(b) Local currency support of the selected Program activities will be provided under the Loan in accordance with the levels of support agreed upon, in accordance with paragraph (a) above, and on a reimbursement basis based on actual local currency expenditures made by the Cooperating Country for the selected activities during quarterly or other agreed periods of the Cooperating Country's fiscal year.

(c) A.I.D. will in no event be obligated to lend to the Cooperating Country, to make disbursements under the Loan, or to provide local currency support for the Program in an aggregate amount greater than the amount of the Loan stated in Section 3.1.

## SECTION 7.2. Disbursements

(a) After satisfaction of conditions precedent in Article 5, as applicable, the Cooperating Country may obtain disbursements under the Loan, in the form described in paragraph (b) below, for local currency support for the Program as agreed upon in accordance with Section 7.1 above by submitting requests therefor to A.I.D., together with necessary supporting documentation as prescribed in Program Implementation Letters.

(b) Disbursements will be made under the Loan by A.I.D.'s causing to be issued by a U.S. bank in favor of the Central Bank or other designee of the Cooperating Country an Unrestricted Special Letter of Credit ("USLC"), or an amendment thereto, in an amount of U.S. dollars equivalent to the amount of local currency support financeable under the Loan, based on the levels of support agreed upon under Section 7.1.

(c) Except as A.I.D. may otherwise agree in writing, the U.S. dollars made available in the Unrestricted Special Letter of Credit may be utilized only for procurement of goods or services from the United States, under appropriate procedures to be described in Program Implementation Letters.

### 4. Annex I. Amplified Program Description.

Delete Table 1, Allocation of Rupees for 1981, and substitute the attached Table 1 (Revised), Allocation of Rupees for 1981. Table 1 (Revised) incorporates agreed revisions in the annual program for 1981.

Add a new Table 2, Allocation of Rupees for 1982, which is hereto attached. Table 2 sets forth the agreed annual program for 1982.

### 5. Annex II. Standard Program Agreement Provisions Annex.

SECTION B.3(a): Delete "resources financed under the Assistance" and substitute in lieu thereof "resources financed under Mahaweli budget items or activities supported by the Assistance".

SECTIONS B.3(b), B.7, C.1(b), and C.1(d): Delete "goods or services financed under the Assistance" and substitute in lieu thereof "goods or services financed under Mahaweli budget items or activities supported by the Assistance".

SECTION B.5(b): Delete "reimbursement of local costs incurred" and substitute in lieu thereof "reimbursement of local currency support".

SECTION B.5(c): Delete "goods and services financed by such Party" and substitute in lieu thereof "goods and services financed under Mahaweli budget items or activities supported by the Assistance".

SECTION C.1(a): Delete "or which was for goods or services" and substitute in lieu thereof "or which was made in support of any Mahaweli budget item or activity under which there was financed any goods or services".

SECTION C.1(b): Delete "for such goods or services" and substitute in lieu thereof "made in support of such Mahaweli budget items or activities".

SECTION C.1(d): Delete "cost of goods and services required for the Program" and substitute in lieu thereof "support of Mahaweli budget items or activities agreed upon by the Parties".

SECTION D.2(3): Delete "under the Assistance" and substitute in lieu thereof "under Unrestricted Special Letters of Credit".

6. The modifications made by this Amendment to Sections 3.3, 7.1, and 7.2, to Table 1 of Annex I, and to Annex II of the Loan Agreement shall be considered effective from the date of the original Loan.

IN WITNESS WHEREOF, the Democratic Socialist Republic of Sri Lanka and the United States of America, each acting through its duly authorized representative, have caused this Amendment Number One to be signed in their names and delivered as of the day and year first above written.

THE DEMOCRATIC SOCIALIST  
REPUBLIC OF SRI LANKA

UNITED STATES OF AMERICA

By: C. Charnugam.

Name: Chandirapal Charnugam  
Title: Acting Secretary  
Ministry of Finance & Planning

By: John H. Reed

Name: John H. Reed  
Title: American Ambassador

TABLE 1 (Revised)

MAHAWELI SECTOR SUPPORT  
ALLOCATION OF RUPEES FOR 1981

MAJOR ACTIVITY	BUDGET FOR 1981 (Rupees Millions)			PORTION OF COOPERATING COUNTRY ALLOCATED TO LOAN
	TOTAL	FOREIGN DONOR	COOPERATING COUNTRY	
1. System H (Market roads, social and agricultural infrastructure, on-farm development, settlement and settler services, irrigation system)	354	115.5	238.5	29
2. Minipe Anicut and Transbasin Canal Complex (for work associated with the RB Transbasin Canal from Minipe Anicut to Ratkinda Reservoir)	335	165	170	91
3. System B (Land development, construction of roads, tank improvement, surveys and services, building construction, and irrigation system)	90	25	65	19
4. System C (irrigation works, building construction, services and maintenance)	180	92	88	54
5. Relocation of families affected by Headworks	37	-	37	1
6. Total	996	397.5	598.5	194

1/ In support only of expenditures from June 1, 1981 - December 31, 1981. See also footnote 2 on Table 2.

TABLE 2

MAHAWELI SECTOR SUPPORT  
ALLOCATION OF RUPEES FOR 1982

BUDGET FOR 1982  
(Rupees Millions)

MAJOR ACTIVITY	TOTAL	FOREIGN DONOR	COOPERATING COUNTRY	PORTION OF COOPERATING COUNTRY ALLOCATED TO LOAN
1. System H (Irrigation infrastructure, roads and bridges, drainage, social infrastructure including water and power, buildings, on farm development, settlement services and support, reforestation, and maintenance)	299	120	179	99.5
2. System B (Social infrastructure, market roads, irrigation works, buildings, surveys, land development, tank bed clearance, experimental farm, and settler services for Zones 1 and 5)	509	370	139	91.5
3. System C (Irrigation channel and reservoir work and buildings in Zones 2 and 3)	448	393	55	17
4. System G (Irrigation and road development, project buildings and workshop, land clearing, settler support)	36	12	24	17
5. Minipe Anicut/Transbasin Canal Complex (for work associated with the RB transbasin canal from Minipe Anicut to Ratkinda Reservoir)	324.5	207	117.5	88
6. Sub-total	1616.5	1102	514.5	313
7. Unallocated <sup>1/</sup>				189
8. Total				502 <sup>2/</sup>

<sup>1/</sup> The amount unallocated may subsequently be allocated to the major activities in Table 2 or to additional major activities by mutual agreement of the parties effected by jointly agreed-upon Implementation Letters.

<sup>2/</sup> Should disbursement from the Loan in support of expenditures for major activities eligible in 1981 and 1982 not equal the amount available in the loan, any portion of the loan not so disbursed shall remain available for disbursement in support of major activities eligible in 1983.

A.I.D. Loan Number 383-T-029

Project Number 383-0078

LOAN AGREEMENT  
BETWEEN THE  
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA  
AND THE  
UNITED STATES OF AMERICA  
FOR  
MAHAWELI SECTOR SUPPORT

Dated: May 29, 1981

# TABLE OF CONTENTS

## Loan Agreement

	<u>Page</u>
Article 1: The Agreement	1
Article 2: The Program	1
SECTION 2.1. Definition of Program	1
SECTION 2.2. Incremental Nature of Program	2
Article 3: Financing	
SECTION 3.1. The Loan	2
SECTION 3.2. Cooperating Country Resources for the Program	3
SECTION 3.3. Program Assistance Completion Date	3
Article 4: Loan Terms	4
SECTION 4.1. Interest	4
SECTION 4.2. Repayment	4
SECTION 4.3. Application, Currency, and Place of Payment	5
SECTION 4.4. Prepayment	5
SECTION 4.5. Renegotiation of Terms	5
SECTION 4.6. Termination on Full Payment	6
Article 5: Conditions Precedent to Disbursement	6
SECTION 5.1. First Disbursement	6
SECTION 5.2. Notification	7
SECTION 5.3. Terminal Dates for Conditions Precedent	7
Article 6: Special Covenants	7
SECTION 6.1. Program Evaluation	7
Article 7: Disbursement	7
SECTION 7.1. Source and Origin for Local Currency Costs	7
SECTION 7.2. Method of Disbursement	8
SECTION 7.3. Other Forms of Disbursement	8
SECTION 7.4. Rate of Exchange	8
SECTION 7.5. Date of Disbursement	8

Table of Contents (con't.)

Page

Article 8: Miscellaneous

9

SECTION 8.1. Communications

9

SECTION 8.2. Representatives

9

SECTION 8.3. Standard Provisions Annex

10

LOAN AGREEMENT

Dated: May 29, 1981

Between

The Government of the Democratic Socialist Republic of Sri Lanka  
("Cooperating Country").

And

The United States of America, acting through the  
Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Cooperating Country of the Program described below, and with respect to the financing of the Program by the Parties.

Article 2: The Program

SECTION 2.1. Definition of Program. The Program, which is further described in Annex 1, will consist of assistance to the Cooperating Country to enable it to maintain an adequate level of local currency investment in the Accelerated Mahaweli Program. The Loan may be used to reimburse the Cooperating Country for local currency expenditures for the Mahaweli Program in the following three categories in order of priority.

- (a) Downstream activities being constructed by the Cooperating Country without expatriate technical assistance;
- (b) Downstream activities for which expatriate assistance for design and supervision has been arranged under donor financing;

(c) Headworks construction in the Mahaweli Program for which expatriate assistance for design and supervision is being provided with donor support.

Within the limits of the above definition of the Program, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Program

(a) A.I.D.'s contribution to the Program will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to availability of funds to A.I.D. for this purpose, to the mutual agreement of the Parties at the time of a subsequent increment to proceed, and to review by A.I.D. of progress under the Program and of the economic and financial position of Sri Lanka. The review is to ensure that further assistance under the Program continues to be required and will be used effectively.

(b) Within the overall Program Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Cooperating Country, may specify in Program Implementation Letters appropriate time periods for the utilization of funds provided by A.I.D. under an individual increment of assistance.

Article 3: Financing:

SECTION 3.1. The Loan. To assist the Cooperating Country to meet the costs of carrying out the Program, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to lend the Cooperating

Country under the terms of this Agreement not to exceed Eighteen Million, Eight Hundred Thousand United States ("U.S.") dollars (\$18,800,000)("Loan"). The aggregate amount of disbursements under the Loan is referred to as "Principal."

SECTION 3.2. Cooperating Country Resources for the Program.

(a) The Cooperating Country agrees to provide or cause to be provided for the Program all funds, in addition to the Loan, and all other resources required to carry out the Program effectively and in a timely manner.

(b) The resources provided by the Cooperating Country or by donors other than the United States of America will be not less than twenty-five percent (25%) of the total cost of any major project within the Mahaweli Program for which assistance is provided under this Agreement, including costs borne on an "in-kind" basis.

SECTION 3.3. Program Assistance Completion Date.

(a) The "Program Assistance Completion Date" (PACD), which is June 30, 1984, or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Loan will have been performed and all goods financed under the Loan will have been furnished for the Program as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Loan for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, as described in Section 7.2., accompanied by necessary supporting documentation prescribed in Program Implementation Letters, are to be received by A.I.D. no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Cooperating Country, may at any time or times reduce the amount of the Loan by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Program Implementation Letters, were not received before the expiration of said period.

Article 4. Loan Terms

SECTION 4.1. Interest. The Cooperating Country will pay to A.I.D. interest which will accrue at the rate of two percent (2%) per annum for ten (10) years following the date of the first disbursement hereunder and at the rate of three percent (3%) per annum thereafter on the outstanding balance of Principal and on any due and unpaid interest. Interest on the outstanding balance will accrue from the date (as defined in Section 7.5) of each respective disbursement, and will be payable semiannually. The first payment of interest will be due and payable no later than six (6) months after the first disbursement hereunder, on a date to be specified by A.I.D.

SECTION 4.2. Repayment. The Cooperating Country will repay to A.I.D. the Principal within forty (40) years from the date of the first disbursement of the Loan in sixty-one (61) approximately equal semiannual installments of Principal and Interest. The first installment of Principal will be payable nine and one-half (9-1/2) years after the date on which the first interest payment is due in accordance with Section 4.1.

A.I.D. will provide the Cooperating Country with an amortization schedule in accordance with this Section after the final disbursement under the Loan.

SECTION 4.3. Application, Currency, and Place of Payment. All payments of interest and Principal hereunder will be made in U.S. dollars and will be applied first to the payment of interest due and then to the repayment of Principal. Except as A.I.D. may otherwise specify in writing, payments will be made to the Controller, Office of Financial Management, Agency for International Development, Washington, D.C., 20523, U.S.A., and will be deemed made when received by the Office of Financial Management.

SECTION 4.4. Prepayment. Upon payment of all interest and any refunds then due, the Cooperating Country may prepay, without penalty, all or any part of the Principal. Unless A.I.D. otherwise agrees in writing, any such prepayment will be applied to the installments of Principal in the inverse order of their maturity.

SECTION 4.5. Renegotiation of Terms.

(a) The Cooperating Country and A.I.D. agree to negotiate, at such time or times as either may request, an acceleration of the repayment of the Loan in the event that there is any significant and continuing improvement in the internal and external economic and financial position and prospects of Sri Lanka, which enable the Cooperating Country to repay the Loan on a shorter schedule.

(b) Any request by either Party to the other to so negotiate will be made pursuant to Section 8.1., and will give the name and address of the person or persons who will represent the requesting Party in such negotiations.

(c) Within thirty (30) days after delivery of a request to negotiate, the requested Party will communicate to the other, pursuant to Section 8.1, the name and address of the person or persons who will represent the requested Party in such negotiations.

(d) The representatives of the Parties will meet to carry on negotiations no later than thirty (30) days after delivery of the requested Party's communication under subsection (c). The negotiations will take place at a location mutually agreed upon by the representatives of the Parties, provided that, in the absence of mutual agreement, the negotiations will take place at the Office of the Cooperating Country's Ministry of Finance and Planning in Sri Lanka.

SECTION 4.6. Termination on Full Payment. Upon payment in full of the Principal and any accrued interest, this Agreement and all obligations of the Cooperating Country and A.I.D. under it will cease.

#### Article 5. Conditions Precedent to Disbursement

SECTION 5.1. First Disbursement. Prior to the first disbursement under the Loan, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Cooperating Country will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Cooperating Country, and that it constitutes a valid and legally binding obligation of the Cooperating Country in accordance with all of its terms; and

(b) A statement of the name of the person holding or acting in the Office of the Cooperating Country specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

SECTION 5.2. Notification. When A.I.D. has determined that the conditions precedent specified in Section 5.1 have been met, it will promptly notify the Cooperating Country.

SECTION 5.3. Terminal Dates for Conditions Precedent. If all of the conditions specified in Section 5.1 have not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Cooperating Country.

Article 6: Special Covenants

SECTION 6.1. Program Evaluation. The Parties agree to establish an evaluation program as part of the Program. Except as the Parties otherwise agree in writing, the evaluation will include, during the implementation of the Program and at one or more points thereafter: (a) evaluation of progress toward attainment of the objectives of the Program; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment; (c) assessment of how such information may be used to help overcome such problems; and (d) evaluation, to the degree feasible, of the overall development impact of the Program.

Article 7: Disbursement.

SECTION 7.1. Source and Origin for Local Currency Costs. The Loan will be used exclusively to reimburse the Cooperating Country for the cost of goods and services required for the Program having their source and, except as A.I.D. may otherwise agree in writing, their origin in Sri Lanka ("Local Currency Costs").

SECTION 7.2. Method of Disbursement. After satisfaction of conditions precedent in Section 5.1, the Cooperating Country may obtain disbursement under the Loan for Local Currency Costs incurred for the Program in accordance with the terms of this Agreement, by submitting to A.I.D. the necessary supporting documentation as prescribed in Program Implementation Letters.

Disbursements will be made from the Loan by A.I.D.'s issuance of an Unrestricted Special Letter of Credit ("USLC") in U.S. dollars to a U.S. bank in an amount equal to the amount of Local Currency Costs expended by the Cooperating Country for the project activities described in the Amplified Project Description, Annex 1 of this Agreement. Except as A.I.D. may otherwise agree in writing, the Unrestricted Special Letter of Credit may be used only to finance the import of goods and services of U.S. source.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Loan may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. The Local Currency Costs for which disbursements may be made from the Loan will be converted into U.S. dollar equivalent at the highest rate of exchange which, at the time the request for disbursement is made, is not unlawful in Sri Lanka.

SECTION 7.5. Date of Disbursement. Disbursement of the Loan by A.I.D. will be deemed to occur on the date on which U.S. dollars are made available to the Cooperating Country by Unrestricted Special Letter of Credit in accordance with Section 7.2.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following address:

To the Cooperating Country:

Mail Address: External Resources Department  
Ministry of Finance & Planning  
2nd Floor, Ceylinco House  
Colombo 1, Sri Lanka

Alternate address for telegrams: FORAID  
Colombo, Sri Lanka

to A.I.D.:

Mail Address: Mission Director  
USAID  
c/o American Embassy  
Colombo 3, Sri Lanka

Alternate address for telegrams: USAID  
AMEMBASSY  
Colombo, Sri Lanka

All such communications will be in English unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

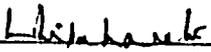
SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Borrower will be represented by the individual holding or acting in the Office of Director, Department of External Resources, Ministry of Finance and Planning, and A.I.D. will be represented by the individual holding or acting in the Office of Director, USAID Mission to Sri Lanka, each of whom, by written notice, may designate additional representatives for all purposes other than

exercising the power under Section 2.1 to revise elements to the amplified description in Annex 1. The names of the representatives of the Cooperating Country with specimen signatures will be provided to A.I.D. which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

SECTION 8.3. Standard Provisions Annex. A "Program Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Cooperating Country and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

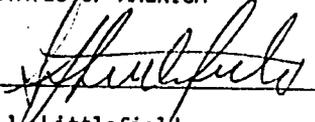
DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By: 

Name: W.M. Tilakaratna

Title: Secretary, Ministry of Finance  
& Planning

UNITED STATES OF AMERICA

By: 

Name: S.J. Littlefield

Title: Mission Director, United  
States Agency for  
International Development/  
Sri Lanka

MAHAWELI SECTOR SUPPORT  
AMPLIFIED PROGRAM DESCRIPTION

A. THE PROGRAM

The purpose of the loan is to assist the Cooperating Country to maintain an adequate level of local currency investment in the Accelerated Mahaweli Program ("AMP"). The loan will provide the Cooperating Country with a non-inflationary means of providing rupees for planned AMP activities that otherwise might have to be deferred or eliminated.

B. ALLOCATION OF RUPEES

The allocation of rupees to line items in the AMP budget for 1981 is shown in Table 1. In each future year, the Parties will review the proposed budget for the AMP before it is submitted to Parliament for approval. The Parties will reach agreement on allocations of loan-generated rupees for specific activities of the official Mahaweli capital expenditure budget. However, the total amount of assistance from this loan and other assistance from A.I.D. cannot exceed 75% of the total costs of a major activity. The rupees may be allocated to activities in the following categories in order of priority.

1. Downstream activities being implemented without expatriate technical assistance; for example land clearing, on-farm development, construction of social infrastructure (schools, health centers, community centers, etc.), farm-to-market roads, irrigation and draining canals, and camps for workers and settlers.

2. Downstream activities for which expatriate assistance for design and supervision has been arranged under donor financing.

3. Headworks construction for which expatriate assistance for design and supervision has been arranged under donor financing.

C. METHOD OF DISBURSEMENT

A.I.D. will disburse to the Cooperating Country U.S. dollars through Unrestricted Special Letters of Credit ("USLC") upon request by the Cooperating Country. The USLC may be used by both the public and private sectors of the Cooperating Country to finance the import of goods and services of U.S. source.

D. IMPLEMENTATION

At the end of each quarter or such other time as the Parties may agree, the Ministry of Mahaweli Development will submit to the Ministry of Finance & Planning a report on progress of implementation and expenditures made for the activities shown in Table 1. The Ministry of Finance and Planning will forward the report to A.I.D., together with a request that A.I.D. issue or amend a USLC in an amount of dollars equivalent to the amount of rupees expenditures made by the Cooperating Country as shown in the progress report. Only expenditures made after the date of signing of this loan agreement are eligible for reimbursement.

The Ministry for Mahaweli Development will submit to A.I.D. for concurrence quantified physical implementation targets for each line item included in Table 1. Changes in the targets and allocation of rupees to line items in Table 1 may be made by mutual written agreement of the Parties without formal amendment to this Annex 1. A.I.D. will monitor the implementation of the Program by periodic visits to the sites of the activities listed in Table 1.

E. 1981 BUDGET

The allocation of rupees generated by the \$18,800,000 of this loan is shown in Table 1. The A.I.D. loan may be used to reimburse for expenditures incurred by the Cooperating Country after the signing of this Agreement which are not otherwise reimbursed or paid by any foreign donor. Any portion of the Loan not used to reimburse the Cooperating Country for eligible expenditures in calendar year 1981 may be applied to expenditures in 1982 by mutual agreement in writing by the Parties.

F. PARTIAL FUNDING

By this loan agreement, A.I.D. is providing a loan of \$18,800,000. A.I.D. intends to provide an additional \$31,200,000 in loan funds in future years subject to the availability of funds to A.I.D. for this purpose and mutual agreement of the Parties at the time to proceed. The additional funds will be provided in subsequent years by amendments to this Program Loan Agreement. Such amendments will include a revised budget Table 1 for the allocation of rupees.

TABLE 1

## MAHAWELI SECTOR SUPPORT

## Allocation of Rupees for 1981

<u>Major Activity</u>	Budget for 1981 (Rupees Millions)			Portion of Cooperating Country Allocated to Loan
	<u>Total</u>	<u>Foreign Donor</u>	<u>Cooperating Country</u>	
1. System H (market roads, social, irrigation, agricultural infrastructure, on-farm development, settler services portions of budget)	289	93	196	90
2. Minipe Anicut and Transbasin Canal Complex	405	130	275	200
3. Relocation of families affected by headworks				
Victoria Reservoir	25	-	25	25
Kotmale Reservoir	25	-	25	25
<b>Total</b>	<b>744</b>	<b>223</b>	<b>521</b>	<b>340.0*</b>

Rupee generations in excess of this total amount may be allocated among these major activities without formal amendment of this table.

MAHAWELI SECTOR SUPPORT LOANStandard Program AgreementProvisions Annex

**Definitions:** As used in this Annex, the "Agreement" refers to the Program Loan Agreement to which this Annex is attached and of which this Annex forms a part. Terms used in this Annex have the same meaning or reference as in the Agreement. "Cooperating Country" is the Government of the Democratic Socialist Republic of Sri Lanka.

**Article A: IMPLEMENTATION LETTERS**

To assist the Cooperating Country in the implementation of the Project, A.I.D., from time to time, will issue Program Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Program Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Program Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Program in Annex I.

**Article B: GENERAL COVENANTS**

**SECTION B.1. Consultation.** The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Program, the performance of obligations under this Agreement, the performance of any consultants, contractors or suppliers engaged on the Program, and other matters relating to the Program.

**SECTION B.2. Execution of Program.** The Cooperating Country will:

(a) carry out the Program or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Program, and, as applicable for continuing activities, cause the Program to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Program.

**SECTION B.3. Utilization of Goods and Services.**

(a) any resources financed under the Assistance will, unless otherwise agreed in writing by A.I.D., be devoted to the Program until the completion of the Program, and thereafter will be used so as to further the objectives sought in carrying out the Program.

(b) goods or services financed under the Assistance, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4 Taxation. This agreement, and the Assistance will be free from, and the Principal and interest will be paid free from, any taxation or fees imposed under laws in effect in the territory of the Cooperating Country.

SECTION B.5. Reports, Records, Inspections, Audit. The Cooperating Country will:

(a) furnish A.I.D. such information and reports relating to the Program and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Program and to this Agreement, adequate to show, without limitation, the basis for Cooperating Country's requests for reimbursement of local costs incurred for agreed upon activities. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Program, the utilizations of goods and services financed by such Party, and books, records and other documents relating to the Program and Assistance.

SECTION B.6. Completeness of Information. The Cooperating Country confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Assistance, are accurate and complete, and include all facts and circumstances that might materially affect the Program and the discharge of responsibilities under this Agreement, and

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Program or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. The Cooperating Country affirms that no payments have been or will be received by any official of the Cooperating Country in connection with the procurement of goods or services financed under the Assistance except fees, taxes, or similar payments legally established in the territory of the Cooperating Country.

SECTION B.8. Information and Marking. The Cooperating Country will give appropriate publicity to the Assistance of the Program as a program to which the United States has contributed.

Article C: REFUNDS; NONWAIVER OR REMEDIES

SECTION C.1. Refunds

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies provided for under this Agreement, may require the Cooperating Country to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(b) If the failure of the Cooperating Country to comply with any of its obligations under this Agreement has the result that goods or services financed under the Assistance are not used effectively in accordance with this Agreement, A.I.D. may require the Cooperating Country to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Assistance, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Program, to the extent justified, and (B) the remainder, if any, will be applied to the installments of Principal in the inverse order of their maturity and the amount of the Loan reduced by the amount of such remainder.

SECTION C.2. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

Article D: TERMINATION; Remedies

SECTION D.1. Cancellation by Cooperating Country. The Cooperating Country may, by giving A.I.D. 30 days written notice, cancel any part of the Loan which has not been disbursed or committed for disbursement to third parties.

SECTION D.2. Events of Default; Acceleration. It will be an "Event of Default" if the Cooperating Country shall have failed: (a) to pay when due any interest or installment of principal required under this Agreement, or (b) to comply with any other provisions of this Agreement, or (c) to pay when due any interest or installment of principal or other payment required under any other loan, guaranty or other agreement between the Cooperating Country or any of its agencies and A.I.D. or any of its predecessor agencies. If an Event of Default shall have occurred, then A.I.D. may give the Cooperating Country notice that all or any part of the unrepaid Principal will be due and payable sixty (60) days thereafter, and, unless such Event of Default is cured within that time:

- (1) such unrepaid Principal and accrued interest hereunder will be due and payable immediately, and
- (2) the amount of any further disbursements made pursuant to then outstanding commitments to third parties or otherwise will become due and payable as soon as made.

SECTION D.3. Suspension. If at any time:

- (a) An event of Default has occurred; or
- (b) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purpose of the Assistance will be attained or that the Cooperating Country will be able to perform its obligations under this Agreement; or
- (c) Any disbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or
- (d) The Cooperating Country shall have failed to pay when due any interest, installment of principal or other payment required under any other loan, guaranty, or other agreement between the Cooperating Country or any of its agencies and the Government of the United States or any of its agencies;

Then A.I.D. may:

- (1) suspend or cancel outstanding commitment documents to the extent they have not been utilized through irrevocable commitments to third parties or otherwise, giving prompt notice thereof to the Cooperating Country;
- (2) decline to issue additional commitment documents or to make disbursement other than under existing ones; and
- (3) at A.I.D.'s expense, direct that title to goods financed under the Assistance be transferred to A.I.D. if the goods are from a source outside Sri Lanka, are in a deliverable state and have not been offloaded in ports on entry of Sri Lanka. Any disbursement made under the loan with respect to such transferred goods will be deducted from Principal.

SECTION D.4. Cancellation by A.I.D. If, within sixty (60) days from the date of any suspension of disbursements pursuant to Section D.3., the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Assistance that is not then disbursed or irrevocably committed to third parties.

SECTION D.5. Continued Effectiveness of Agreement. Notwithstanding any cancellation, suspension of disbursement, or acceleration of repayment, the provisions of this Agreement will continue in effect until the payment in full of all Principal and accrued interest hereunder.