
LOAN NUMBER 2275/2276-SRI
(Supplementary to Loan No. 1993-SRI)

PROJECT AGREEMENT

(Secondary Towns and Rural Community-Based Water Supply and Sanitation Project -
Supplementary)

between

ASIAN DEVELOPMENT BANK

and

NATIONAL WATER SUPPLY AND DRAINAGE BOARD

DATED 14 December 2006

PAL:SRI 31501

PROJECT AGREEMENT

PROJECT AGREEMENT dated 14 December 2006 between ASIAN DEVELOPMENT BANK (hereinafter called ADB) and NATIONAL WATER SUPPLY AND DRAINAGE BOARD (hereinafter called NWSDB).

WHEREAS

(A) by a Loan Agreement to be entered between Democratic Socialist Republic of Sri Lanka (hereinafter called the Borrower) and ADB (hereinafter called the Ordinary Operations Loan Agreement), ADB has agreed to make to the Borrower a loan (hereinafter called the Ordinary Operations Loan) of thirteen million five hundred thousand Dollars (\$13,500,000) on the terms and conditions set forth in the Ordinary Operations Loan Agreement;

(B) by a Loan Agreement of an even date herewith between the Borrower and ADB (hereinafter called the Special Operations Loan Agreement, and together with the Ordinary Operations Loan Agreement, the Loan Agreements), ADB has agreed to make to the Borrower a loan (hereinafter called the Special Operations Loan, and together with the Ordinary Operations Loan, the Loans) of thirty one million four hundred eighty one thousand Special Drawing Rights (SDR31,481,000) on the terms and condition set forth in the Special Operations Loan Agreement;

(C) ADB has agreed to make the Loans only on the condition that the proceeds of the Loan be made available to NWSDB and that NWSDB agree to undertake certain obligations towards ADB as hereinafter in this Project Agreement set forth; and

(D) NWSDB, in consideration of ADB entering into the Loan Agreements with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the several terms defined in the Loan Agreements and in the Loan Regulations (as defined in each of the Loan Agreements) have the respective meanings therein set forth.

ARTICLE II

Particular Covenants

Section 2.01. (a) NWSDB shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental, public utility and water supply practices.

(b) In the carrying out of the Project and operation of the Project facilities, NWSDB shall perform all obligations set forth in each of the Loan Agreements to the extent that they are applicable to NWSDB.

Section 2.02. NWSDB shall make available, promptly as needed, the funds, facilities, services, equipment, land and other resources which are required, in addition to the proceeds of the Loans, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, NWSDB shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loans shall be procured in accordance with the provisions of Schedule 4 to the Special Operations Loan Agreement. ADB may refuse to finance a contract where Goods, Works or consulting services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. NWSDB shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. NWSDB shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, design standards, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) NWSDB shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of the Project facilities to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, NWSDB undertakes to insure, or cause to be insured, the Goods to be imported for the Project and to be financed out of the proceeds of the Loans against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such Goods.

Section 2.06. NWSDB shall maintain, or cause to be maintained, records and accounts adequate to identify the Goods, Works and consulting services and other items of expenditure financed out of the proceeds of the Loans, to disclose the use

thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and NWSDB shall cooperate fully to ensure that the purposes of the Loans will be accomplished.

(b) NWSDB shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Subsidiary Financing Agreements, or the accomplishment of the purposes of the Loans.

(c) ADB and NWSDB shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, NWSDB and the Loans.

Section 2.08. (a) NWSDB shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loans and the expenditure of the proceeds thereof; (ii) the Goods, Works and consulting services [and other items of expenditure] financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of NWSDB; and (v) any other matters relating to the purposes of the Loans.

(b) Without limiting the generality of the foregoing, NWSDB shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of the Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, NWSDB shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by NWSDB of its obligations under this Project Agreement and the accomplishment of the purposes of the Loans.

Section 2.09. (a) NWSDB shall (i) maintain separate accounts for the Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the proceeds of the Loans and compliance with the financial covenants of the Loan Agreements as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. NWSDB shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) NWSDB shall enable ADB, upon ADB's request, to discuss NWSDB financial statements and its financial affairs from time to time with the auditors appointed by NWSDB pursuant to Section 2.09(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of NWSDB unless NWSDB shall otherwise agree.

Section 2.10. NWSDB shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Loans, all other plants, sites, properties and equipment of NWSDB, and any relevant records and documents.

Section 2.11. (a) NWSDB shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

(b) NWSDB shall at all times conduct its business in accordance with sound administrative, financial, environmental, public utility and water supply practices, and under the supervision of competent and experienced management and personnel.

(c) NWSDB shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, public utility and water supply, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, NWSDB shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.13. Except as ADB may otherwise agree, NWSDB shall apply the proceeds of the Loans to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreements and this Project Agreement, and shall ensure that all Goods, Works and consulting services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.14. Except as ADB may otherwise agree, NWSDB shall duly perform all its obligations under the Subsidiary Financing Agreements, and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Subsidiary Financing Agreements.

Section 2.15. NWSDB shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of its Charter and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

ARTICLE III

Effective Date; Termination

Section 3.01. This Project Agreement shall come into force and effect on the date on which both of the Loan Agreements shall come into force and effect. ADB shall promptly notify NWSDB of such date.

Section 3.02. (a) This Project Agreement and all obligations of the parties hereunder shall terminate on the earlier of the following two dates:

- (i) the date on which both of the Loan Agreements shall have terminated in accordance with their terms; or
- (ii) a date 24 years after the date of this Project Agreement.

(b) If either or both of the Loan Agreements terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, ADB shall promptly notify NWSDB of this event.

Section 3.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under either or both of the Loan Agreements.

ARTICLE IV

Miscellaneous

Section 4.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex, facsimile or radiogram to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Cable Address:

ASIANBANK
MANILA

Telex Numbers:

29066 ADB PH (RCA)
42205 ADB PM (ITT)
63587 ADB PN (ETPI)

Facsimile Numbers:

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

For NWSDB

National Water Supply and Drainage Board
P.O. Box 14
Mt. Lavinia, Sri Lanka

Cable Address:

Waterboard, Ratmalana
Telephone (9411) 2635-281
COLOMBO, SRI LANKA

Facsimile Number:

(9411) 2636-449.

Section 4.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 7.01 of each Loan Agreement by or on behalf of NWSDB may be taken or executed by its Chairman or by such other person or persons as the Chairman shall so designate in writing notified to ADB.

(b) NWSDB shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.


Section 4.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

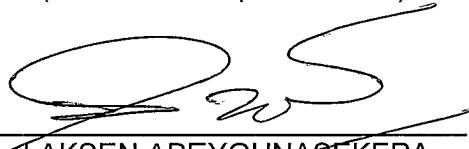
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By 
RICHARD W. A. VOKES
Country Director
Sri Lanka Resident Mission

NATIONAL WATER SUPPLY AND DRAINAGE BOARD

By 
SRIMALATH CHANNA AMARASINGHE
Chairman
(Authorized Representative)

By 
LAKSHEN ABEYGUNASEKERA
Working Director
(Authorized Representative)