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LOAN NUMBER 2477-SRI(SF)

GRANT NUMBER 0129-SRI(SF)

FINANCING AGREEMENT  
(Special Operations)

(Dry Zone Urban Water and Sanitation Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 29 JUNE 2009

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FAS:SRI 37381

**FINANCING AGREEMENT  
(Special Operations)**

FINANCING AGREEMENT dated 29 June 2009 between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Sri Lanka") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) Sri Lanka has applied to ADB for (i) a loan for the purposes of financing Component 1(a)(viii) through to (xii) of the Project described in Schedule 1 to this Financing Agreement; (ii) a grant from ADB's Special Funds resources for the purposes of financing Component 1(a)(i) through to (vii), Component 1(b), Component 2(b), and Component 3 of the Project described in Schedule 1 to this Financing Agreement; and (iii) a grant from the Netherlands Trust Fund for the Water Financing Partnership Facility administered by ADB for the purposes of financing components 2(a) and (c) of the Project described in Schedule 1 to this Financing Agreement;

(B) the Project will be implemented by the National Water Supply and Drainage Board, and for this purpose Sri Lanka shall make available the proceeds of the loan and grant provided for herein to NWSDB, upon terms and conditions satisfactory to ADB;

(C) by a Project Agreement of even date herewith between NWSDB and ADB, NWSDB has agreed to undertake certain obligations towards ADB as set forth in the said Project Agreement;

(D) ADB has agreed to make to Sri Lanka a grant in the amount of two million Dollars (\$2,000,000) from the Netherlands Trust Fund for the Water Financing Partnership Facility administered by ADB upon the terms and conditions set forth in the Grant Agreement of even date herewith between Sri Lanka and ADB; and

(E) ADB has agreed to provide financing by making a loan and a grant to Sri Lanka from ADB's Special Funds resources upon the terms and conditions hereinafter set forth;

NOW THEREFORE the parties agree as follows:

**ARTICLE I**

**Loan Regulations and Grant Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to the Loan made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term “Loan Agreement”, wherever it appears in the Loan Regulations, shall be substituted by the term “Financing Agreement”.

(b) The term “Borrower”, wherever it appears in the Loan Regulations, shall be substituted by the term “Sri Lanka” as defined in the opening paragraph of this Financing Agreement.

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the “Grant Regulations”), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term “Grant Agreement”, wherever it appears in the Grant Regulations, shall be substituted by the term “Financing Agreement”.

(b) The term “Recipient”, wherever it appears in the Grant Regulations, shall be substituted by the term “Sri Lanka” as defined in the opening paragraph of this Financing Agreement.

Section 1.03. The definitions set forth in the Loan Regulations and Grant Regulations are applicable to this Financing Agreement, in each case unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) “Consulting Guidelines” means Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(b) “Goods” means equipment and materials to be financed out of the proceeds of the Loan and the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(c) “MWSD” means Sri Lanka’s Ministry of Water Supply and Drainage and includes any successor thereto acceptable to ADB;

(d) “NGO” means non-governmental organization;

(e) “NWSDB” means Sri Lanka’s National Water Supply and Drainage Board and includes any successor thereto acceptable to ADB;

(f) “O&M” means operation and maintenance;

(g) “PCC” means Project coordination cell, established in accordance with paragraphs 3 and 4 of Schedule 5 to this Financing Agreement;

(h) “PICC” means Project implementation coordination committee, established in accordance with paragraph 2 of Schedule 5 to this Financing Agreement;

(i) “PPCC” means provincial Project coordination committee, established in accordance with paragraph 5 of Schedule 5 to this Financing Agreement;

(j) “Pradeshiya Sabhas” refers to the smallest political unit in peri-urban and rural areas in Sri Lanka;

(k) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;

(l) “Procurement Plan” means the procurement plan for the Project dated 29 October 2008 and agreed between Sri Lanka and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(m) “Project Executing Agency” for the purposes of, and within the meaning of the Loan Regulations and the Grant Regulations means NWSDB, under MWSD, or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(n) “Project facilities” means the equipment and facilities to be provided or rehabilitated under the Project;

(o) “Project towns” means the following towns in Sri Lanka: Chilaw, Mannar, Puttalam, and Vavuniya;

(p) “RO” means regional office;

(q) “Subsidiary Financing Agreement” means the agreement between Sri Lanka and NWSDB, referred to in Section 3.01 of this Financing Agreement; and

(r) “Works” means construction or civil works to be financed out of the proceeds of the Loan and the Grant, including services such as drilling or mapping or Project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## **ARTICLE II**

### **The Loan and the Grant**

Section 2.01. ADB agrees to provide to Sri Lanka from ADB's Special Funds resources, on terms and conditions set forth in this Financing Agreement:

- (a) a loan in various currencies equivalent to forty million fifty four thousand Special Drawing Rights (SDR 40,054,000) (the “Loan”); and
- (b) a grant in the amount of twenty-three million two hundred twenty thousand Dollars (\$23,220,000) (the “Grant”).

Section 2.02. (a) The Loan proceeds shall be withdrawn from the Loan Account in accordance with the provisions of Schedule 3A to this Financing Agreement

for purposes of financing the Project expenditures under Component 1(a)(viii) through to (xii) of the Project; and

(b) The Grant proceeds shall be withdrawn from the Grant Account in accordance with the provisions of Schedule 3B to this Financing Agreement for purposes of financing the Project expenditures under Component 1(a)(i) through to (vii), Component 1(b), Component 2(b), and Component 3 of the Project.

Section 2.03. (a) Sri Lanka shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) 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 2 to this Financing Agreement.

Section 2.04. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.05. Sri Lanka shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.06. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

### **ARTICLE III**

#### **Use of Proceeds of the Loan and the Grant**

Section 3.01. (a) Sri Lanka shall make the proceeds of the Loan and Grant available to NWSDB, under a Subsidiary Financing Agreement, in a blend of grant and loan on the following terms and conditions: (i) the financing for water supply schemes in areas under the Pradeshiya Sabhas shall be provided in a blend of 85% grant and 15% loan, whereby the loan portion shall be determined in local currency, have an interest charge of 10% per annum, and a repayment period of 25 years, including a 5-year grace period, and whereby Sri Lanka shall bear the foreign exchange risk; (ii) the financing for water supply in areas under the urban or municipal councils shall be provided in a blend of 50% grant and 50% loan, with the loan portion provided on the same terms and conditions as in (i) of this section; and (iii) the financing for septage treatment schemes shall be on a 100% grant financing.

(b) Sri Lanka shall cause NWSDB to apply the proceeds of the Loan and the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Financing Agreement and the Project Agreement.

Section 3.02. The Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the Grant and the respective allocation of amounts of the Loan and the Grant among different categories of such Goods and services and other items of expenditure shall be in accordance with the provisions of Schedule 3A and Schedule 3B, respectively, to this Financing Agreement, as such Schedule 3A and Schedule 3B may be amended from time to time by agreement between Sri Lanka and ADB.

Section 3.03. Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan and the Grant shall be procured in accordance with the provisions of Schedule 4 to this Financing Agreement.

Section 3.04. Withdrawals from the Loan Account and the Grant Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and Works and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2014 or, in each case, such other date as may from time to time be agreed between Sri Lanka and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. (a) Sri Lanka shall cause NWSDB to carry out the Project with due diligence and efficiency and in conformity with sound administrative, financial, engineering and environmental practices.

(b) In the carrying out of the Project and operation of the Project facilities, Sri Lanka shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Financing Agreement.

Section 4.02. Sri Lanka shall make available, promptly as needed, the funds, facilities, and services which are required, in addition to the proceeds of the Loan and the Grant, for the carrying out of the Project.

Section 4.03. Sri Lanka shall enable ADB's representatives to inspect the Project, the Goods financed out of the proceeds of the Loan and the Grant, and any relevant records and documents.

Section 4.04. Sri Lanka shall take all action which shall be necessary on its part to enable NWSDB to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) Sri Lanka shall exercise its rights under the Subsidiary Financing Agreement in such a manner as to protect the interests of Sri Lanka and ADB to accomplish the purposes of the Loan and the Grant.

(b) No rights or obligations under the Subsidiary Financing Agreement shall be assigned, amended, or waived without the prior concurrence of ADB.

## **ARTICLE V**

### **Effectiveness**

Section 5.01. The following are specified as additional conditions to the effectiveness of this Financing Agreement for the purposes of Section 9.01(f) of the Loan Regulations and Section 9.01(e) of the Grant Regulations, respectively:

(a) the Subsidiary Financing Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of Sri Lanka and NWSDB and shall have become legally binding upon Sri Lanka and NWSDB in accordance with its terms, subject only to the effectiveness of this Financing Agreement; and

(b) NWSDB shall have furnished ADB with a copy of the official endorsement of NWSDB's tariff setting methodology, as approved by Cabinet, as well as with a copy of the gazetted supporting tariff revision.

Section 5.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations and Section 9.02(c) of the Grant Regulations, respectively, to be included in the opinion or opinions to be furnished to ADB: the Subsidiary Financing Agreement has been duly authorized or ratified and executed and delivered on behalf of, and is legally binding upon Sri Lanka and NWSDB in accordance with its terms.

Section 5.03. A date ninety (90) days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

**ARTICLE VI****Miscellaneous**

Section 6.01. The Secretary of the Ministry of Finance and Planning of Sri Lanka is designated as representative of Sri Lanka for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Loan Regulations and Section 11.01 of the Grant Regulations:

For Sri Lanka

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

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

Cable Address:

SECMINFIN  
COLOMBO

Telex Number:

21232 FORAID COLOMBO  
21409 FINMIN COLOMBO

Facsimile Number:

(9411) 244-9823  
(9411) 244-7633.

For ADB


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

Facsimile Numbers:

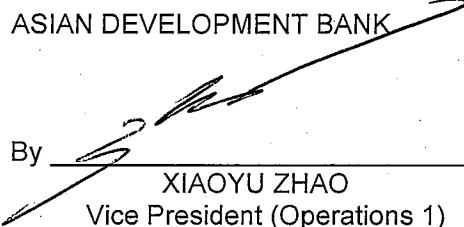
(632) 636-2444  
(632) 636-2293.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing 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.

DEMOCRATIC SOCIALIST REPUBLIC  
OF SRI LANKA

By   
\_\_\_\_\_  
SUMITH ABEYSINGHE  
Secretary  
Ministry of Finance and Planning

ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
XIAOYU ZHAO  
Vice President (Operations 1)

## SCHEDULE 1

### Description of the Project

1. The expected impact of the Project is improved physical well-being of urban populations in Sri Lanka's northwestern dry zone. The Project's envisioned outcome is improved urban water and sanitation services and management in Sri Lanka's northwestern dry zone.

2. The Project shall consist of the following components:

#### 1. **Component 1: Developing Water and Sanitation Infrastructure**

##### **a. Improving Water Supply Service and Coverage**

- (i) Developing 15,000 cubic meter a day water intake on the Dedura Oya river;
- (ii) Constructing seven replacement wells and pump systems in Chilaw;
- (iii) Developing 15,000 cubic meter a day water intake on the Kala Oya river;
- (iv) Restoring and rehabilitating the Elawankulama and Achchamolai tanks in Puttalam;
- (v) Developing a new tank on the Per Aru River with an intake of 12,000 cubic meter a day;
- (vi) Constructing four wells and pump systems in Vavuniya;
- (vii) Flushing and upgrading four existing Murunkan boreholes and constructing four new boreholes in Mannar;
- (viii) Rehabilitating water treatment plants in Chilaw and Puttalam;
- (ix) Developing new water treatment works in Chilaw, Puttalam, and Vavuniya;
- (x) Providing disinfection facilities in Mannar;
- (xi) Constructing 122 kilometers of transmission mains, 464 kilometers of distribution lines, and 12 storage reservoirs; and
- (xii) Implementing a non-revenue water program in the four Project towns, including the replacement or installation of new bulk water meters, a leak detection program, and strengthening the existing distribution network.

##### **b. Improving Sanitation and Septage Management**

- (i) Providing latrines to about 1,800 households in peri-urban areas in Project towns;
- (ii) Rehabilitating 13 public latrines;
- (iii) Providing truck mounted vacuum septic tank cleaning machines for all Project towns; and
- (iv) Developing sludge treatment and disposal facilities in each Project town.

**2. Component 2: Strengthening Water Sector Institutions**

**a. Strengthening Water Resource Management, Coordination and Planning Ability**

- (i) Supporting the development of river basin plans for the Per Aru river, the Kala Oya river, and the Deduru Oya river, including institutional arrangements and responsibilities, planning and management systems, capacity building requirements, and technical and financial support needed;
- (ii) Supporting local authorities to (a) prepare water extraction regulations; and (b) develop participatory monitoring systems; and
- (iii) Supporting water resource mapping in the Project towns.

**b. Building Capacity for Service Delivery**

- (i) Providing support, including through infrastructure, to decentralize NWSDB's functions and responsibilities to Mannar, Puttalam, and Vavuniya ROs; and
- (ii) Designing and implementing a training program to enhance the capacity of staff in ROs.

**c. Increasing Water Conservation and Environmental Awareness**

Designing and conducting a water environmental awareness campaign for (a) water conservation; (b) hygiene and sanitation; and (c) cost-recovery for improved service delivery.

**3. Component 3: Building Management and Implementation Capacity**

Providing support for overall Project management and implementation.

3. The Project shall include the provision of consulting services and is expected to be completed by 31 December 2013.

**SCHEDULE 2****Amortization Schedule  
(Dry Zone Urban Water and Sanitation Project)**

<u>Payment Due Date</u>	<u>Payment of Principal*</u> (expressed in SDR)
15-May-2017	834,458
15-Nov-2017	834,458
15-May-2018	834,458
15-Nov-2018	834,458
15-May-2019	834,458
15-Nov-2019	834,458
15-May-2020	834,458
15-Nov-2020	834,458
15-May-2021	834,458
15-Nov-2021	834,458
15-May-2022	834,458
15-Nov-2022	834,458
15-May-2023	834,458
15-Nov-2023	834,458
15-May-2024	834,458
15-Nov-2024	834,458
15-May-2025	834,458
15-Nov-2025	834,458
15-May-2026	834,458
15-Nov-2026	834,458
15-May-2027	834,458
15-Nov-2027	834,458
15-May-2028	834,458
15-Nov-2028	834,458
15-May-2029	834,458
15-Nov-2029	834,458
15-May-2030	834,458
15-Nov-2030	834,458
15-May-2031	834,458
15-Nov-2031	834,458
15-May-2032	834,458
15-Nov-2032	834,458
15-May-2033	834,458
15-Nov-2033	834,458
15-May-2034	834,458
15-Nov-2034	834,458
15-May-2035	834,458
15-Nov-2035	834,458
15-May-2036	834,458
15-Nov-2036	834,458
15-May-2037	834,458
15-Nov-2037	834,458
15-May-2038	834,458

<u>Payment Due Date</u>	<u>Payment of Principal*</u> (expressed in SDR)
15-Nov-2038	834,458
15-May-2039	834,458
15-Nov-2039	834,458
15-May-2040	834,458
15-Nov-2040	834,474
Total	40,054,000

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\* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

**SCHEDULE 3A****Allocation and Withdrawal of Loan Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Loan and the allocation of amounts of the Loan to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Loan on the basis of the percentages set forth in the Table.

Interest Charge

3. The amount allocated to Category 3 is for financing the interest charge on the Loan during the implementation period of the Project.

Reallocation

4. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Loan then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Accounts: Statement of Expenditures

6. (a) Except as ADB may otherwise agree, Sri Lanka shall establish immediately after the Effective Date, an imprest account at the Central Bank of Sri Lanka, as well as a second generation imprest account (SGIA), to be operated by the PCC, at a commercial Bank to be agreed upon between Sri Lanka and ADB. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The currency of the main imprest account shall be the Dollar, while the currency of the SGIA shall be the Sri Lankan Rupee. The initial amount to be deposited into the account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six (6) months of Project implementation, or (ii) the equivalent of ten percent (10%) of the Loan amount.

(b) Immediately after the Effective Date, each RO shall establish a third generation imprest account (TGIA) at a commercial bank to be agreed between Sri Lanka and ADB. The TGIA shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The initial amount to be deposited into each TGIA shall not exceed the equivalent of six (6) months estimated expenditures.

(c) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest accounts, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB.

**TABLE**

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Dry Zone Urban Water and Sanitation Project)</b>			
<b>CATEGORY</b>			<b>ADB FINANCING BASIS</b>
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing SDR Category</b>	<b>Percentage and Basis for Withdrawal from the Grant Account</b>
1	Civil Works	11,692,000	75 percent of total expenditure
2	Construction Equipment and Materials	16,502,000	100 percent of total expenditure*
3	Interest Charge	1,481,000	
4	Unallocated	10,379,000	
	Total	40,054,000	

\* Exclusive of taxes and duties imposed within the territory of Sri Lanka.

**SCHEDULE 3B****Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of Goods, Works and consulting services and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the Table). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table.)

Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with Sri Lanka, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, and consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Accounts; Statement of Expenditures

5. (a) Except as ADB may otherwise agree, Sri Lanka shall establish immediately after the Effective Date, an imprest account at the Central Bank of Sri Lanka, as well as a second generation imprest account (SGIA), to be operated by the PCC, at a commercial Bank to be agreed upon between Sri Lanka and ADB. The imprest accounts

Schedule 3B

shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The currency of the main imprest account shall be the Dollar, while the currency of the SGIA shall be the Sri Lankan Rupee. The initial amount to be deposited into the account shall not exceed the lower of (i) the estimated expenditure to be financed from the imprest account for the first six (6) months of Project implementation, or (ii) the equivalent of ten percent (10%) of the Grant amount.

(b) Immediately after the Effective Date, each RO shall establish a third generation imprest account (TGIA) at a commercial bank to be agreed between Sri Lanka and ADB. The TGIA shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB. The initial amount to be deposited into each TGIA shall not exceed the equivalent of six (6) months estimated expenditures.

(c) The statement of expenditures procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest account, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between Sri Lanka and ADB.

Retroactive financing

6. Withdrawals from the Grant Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date but not earlier than twelve (12) months before the date of this Financing Agreement in connection with topographical surveys and geotechnical and groundwater investigations, subject to a maximum amount equivalent to twenty percent (20%) of the Grant Amount.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Dry Zone Urban Water and Sanitation Project)</b>			
<b>CATEGORY</b>			<b>ADB FINANCING BASIS</b>
<b>Number</b>	<b>Item</b>	<b>Total Amount Allocated for ADB Financing \$ Category</b>	<b>Percentage and Basis for Withdrawal from the Grant Account</b>
1	Civil Works	8,700,000	72 percent of total expenditure
2	Construction Equipment and Materials	920,000	100 percent of total expenditure*
3	Survey	920,000	100 percent of total expenditure*
4	Training	340,000	100 percent of total expenditure*
5	Office equipment and furniture	420,000	100 percent of total expenditure*
6	Consulting Services	4,610,000	100 percent of total expenditure*
7	Unallocated	7,310,000	
	Total	23,220,000	

\*Exclusive of taxes and duties imposed within the territory of Sri Lanka.

## SCHEDULE 4

### Procurement of Goods and Works, and Consulting Services

#### A. General

1. All Goods, Works and consulting services to be financed out of the proceeds of the Loan and Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Financing Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

#### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

International Competitive Bidding
National Competitive Bidding
Shopping

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. Sri Lanka may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

4. National Competitive Bidding. Sri Lanka and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, Sri Lanka's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between Sri Lanka and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after written approval of such change by Sri Lanka and ADB.

#### C. Conditions for Award of Contract

5. Sri Lanka shall not award any Works contracts financed under the Loan or Grant until:

(a) for any contract related to Puttalam's water supply scheme, NWSDB shall have furnished ADB with copies of legally binding documents which demonstrate that the necessary water extraction rights needed to enable the long term abstraction of sufficient drinking water from the Achchamolai reservoir have been obtained; and

(b) for any contract related to septage improvement, the relevant urban council of the Project town to which the contract applies shall have passed the necessary Council Resolution and by-laws to (i) introduce a fee for septage collection and disposal, sufficient to cover O&M costs; and (ii) introduce the compulsory use of septic tanks in new property developments.

**D. Selection of Consulting Services**

6. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, Sri Lanka shall apply quality- and cost-based selection for selecting and engaging consulting services.

**E. Industrial or Intellectual Property Rights**

7. (a) Sri Lanka shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) Sri Lanka shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

8. Sri Lanka shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**F. ADB's Review of Procurement Decisions**

9. All contracts procured under international competitive bidding procedures and contracts for consulting services shall be subject to prior review by ADB, unless otherwise agreed between Sri Lanka and ADB and set forth in the Procurement Plan.

## SCHEDULE 5

### Project Implementation and Other Matters

#### A. Responsibilities for Project Management and Implementation

##### 1. Executing Agency

1. NWSDB, under MWSD, shall be the Executing Agency of the Project.

##### 2. Central Level Coordination and Implementation Arrangements

2. Within three (3) months of the Effective Date, MWSD shall have established a PICC, and such PICC shall have had its first meeting. The PICC shall be chaired by the Secretary of MWSD and shall comprise senior level representatives from both central and provincial government agencies. The PICC shall meet whenever necessary but not less than once every three (3) months to provide national level strategic and policy advice.

3. Within one (1) month of the Effective Date, NWSDB shall have established a PCC within NWSDB's head office. The PCC shall be responsible for: (i) coordinating policy-related activities and ensuring that PICC meetings are conducted quarterly; (ii) preparing the overall Project implementation plan and consolidated annual work plan; (iii) coordinating training programs and annual allocations for each of the ROs; (iv) conducting monitoring and evaluation of activities to ensure compliance with Project assurances and agreed targets; (v) implementing Project performance management system surveys; (vi) Project accounting and disbursement in accordance with ADB guidelines; and (vii) coordinating the preparation and submission to ADB of quarterly reports.

4. The PCC shall, at all times during Project implementation, be headed by a full-time Project Coordinator who shall be at least at the level of Chief Engineer. Other core PCC staff shall comprise a full-time chief accountant, a training specialist, and a public awareness specialist.

##### 3. Regional Level Coordination and Implementation Arrangements

5. Within three (3) months of the Effective Date, NWSDB shall have established a PPCC in each of the Northern and Northwestern provinces. Each PPCC shall comprise representatives from all relevant departments in the provincial council administration, the relevant urban councils, NWSDB, and the District Secretary's Office, and be responsible for overseeing progress in urban sanitation, tank rehabilitation, and water resource management activities. The PPCC shall meet whenever necessary but not less than once every three (3) months.

6. Except for Component 1(a)(ii) which shall be implemented by the Central and Provincial Irrigation Departments, the majority of the Project activities shall be implemented by the NWSDB ROs. The Vavuniya RO shall be responsible for the implementation of Project activities in Vavuniya and Mannar, while the Puttalam RO shall be responsible for the implementation of Project activities in Puttalam and Chilaw. The implementation of Component 1(b) shall be done by NWSDB ROs in close coordination with the responsible urban council.

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7. Each RO shall have a Project section, headed by an experienced Project Manager, subject to concurrence from both the External Resources Department of Sri Lanka and ADB. NWSDB shall ensure that at all times during Project implementation, the Project section shall be staffed by sufficient specialists in water supply, sewerage and sanitation, procurement, environment, finance and accounting, and social and community development. The Project section shall be supported by consultants in Project design, supervision, and management consulting.

8. The ROs shall be responsible for: (i) recruiting Project consultants and NGOs jointly with the PCC; (ii) assisting the Provincial Irrigation Department and the urban councils to implement their respective activities; (iii) carrying out detailed surveys, investigations and engineering designs of their investment activities prior to starting any tendering process; (iv) conducting all aspects of the procurement process in compliance with ADB's Procurement Guidelines; (v) ensuring compliance with Project assurances; (vi) coordinating with the PCC on disbursement related matters; (vii) maintaining Project documents and submitting timely reports, including audit reports, to the PCC; (viii) collecting data for key indicators; (ix) supervising the implementation of activities under the summary poverty reduction and social strategy, in particular those related to gender; (x) obtaining the necessary clearances; and (xi) arranging quarterly PPCC meetings.

## **B. Project Implementation**

9. Sri Lanka shall ensure that all executing and implementing agencies identified in this Schedule and to whom certain Project implementation matters are entrusted, shall comply with these obligations in a timely manner.

### **1. Financial and Personnel Matters**

10. Sri Lanka shall ensure that each year during Project implementation, adequate budgetary allocations of the required counterpart funds shall be made by the relevant authorities on a timely and regular basis.

11. NWSDB shall allocate all necessary O&M resources for all schemes developed under the Project.

12. At the latest by 28 February of each year, NWSDB shall have submitted to ADB: (i) the end-of-year income statement for the previous year (inclusive of O&M, debt service, and depreciation); and (ii) annual projections (inclusive of O&M, debt service, and depreciation) for the coming year. In the event that (ii) is a negative value, NWSDB shall implement, at the latest by 31 August of that same year, the water and sewerage tariff revisions required to secure a positive net income in each of these sectors.

### **2. Policy Related Matters**

13. Within three (3) years of the Effective Date, NWSDB shall have (i) established a Regional Support Center for the Northern Province; (ii) transferred to such center at a minimum the following functions: planning and development, commercial, and audit; and (iii) staffed the center in such a way that it can implement those functions.

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14. NWSDB shall (i) annually publish water quality data and service levels for all its schemes across the country; as well as (ii) quarterly publish the same data for schemes with more than 5,000 connections. Annual data shall be made available through NWSDB's annual report, to be published on NWSDB's website. Quarterly data shall be made available to the public through written notices in NWSDB's offices.

15. At the latest by 30 June 2009, Sri Lanka's Cabinet shall have approved (i) the Water Supply Policy; and (ii) the Sanitation Policy.

16. By the end of year three of Project implementation, provincial councils covered under the Project shall have taken all necessary and appropriate measures, to (i) monitor and control groundwater abstraction; (ii) prevent groundwater contamination from both agricultural and bacteriological sources; and (iii) implement measures to enhance aquifer recharge.

### **3. Design and Operation of Project Facilities**

17. NWSDB shall ensure that the following are conducted and available at the design stage: (i) hydrological investigations to determine the extent and safe yield of aquifers in Mannar, Vavuniya, and Chilaw; (ii) hydrological and ecological studies to calculate the minimum environmental flow needed to maintain downstream ecology in the Per Aru tank, the results of which shall be incorporated in the detailed design; and (iii) data pertaining to one (1) year water quality testing programs for all Project sources.

18. Throughout Project implementation, urban councils shall conduct regular monitoring of the quality and quantity of treated effluent, the quality of the water into which the effluent is discharged, and the bacteriological quality of dried sewerage sludge.

19. NWSDB shall ensure that no public latrines shall be rehabilitated under the Project unless the urban council under whose authority these latrines fall, shall have signed a results-based management agreement with the operator of these latrines.

20. Within two (2) months of the Effective Date, NWSDB shall have entered into a Project implementation agreement with (i) the Central Irrigation Department for the construction and rehabilitation of tank and weir structures in Chilaw and Puttalam; and (ii) the Provincial Irrigation Department of the Northern Provincial Council for the construction and rehabilitation of tank and weir structures in Vavuniya.

21. Sri Lanka shall take all necessary and appropriate measures to ensure that Project staff, materials, vehicles, equipment, and all other items required for the implementation of the Project are provided reasonable access to the Project area.

22. Sri Lanka shall take all necessary and appropriate measure to ensure that all Project interventions contribute to minimizing social tension. In the event that any Project intervention has or is expected to have a negative impact, Sri Lanka and ADB shall jointly determine whether to continue, redesign, suspend, or cancel such intervention.

23. NWSDB shall take all necessary and appropriate measure to ensure that contractors give preference to locally recruited workers.

#### **4. Safeguard Matters**

24. Sri Lanka shall ensure that counterpart funds for land acquisition and resettlement activities are made available in a timely manner in accordance with the resettlement plans.

25. NWSDB shall ensure that all land and right-of-way required for the Project shall be made available in a timely manner, and that compensation at replacement value and other entitlements shall be paid to affected people prior to the award of any civil works contract. NWSDB shall ensure that any involuntary resettlement and land or asset acquisition shall be carried out in full compliance with the resettlement plans agreed between NWSDB and ADB, Sri Lanka's National Involuntary Resettlement Policy, 2001, and ADB's *Involuntary Resettlement Policy* (1995).

26. NWSDB shall ensure to update resettlement plans following detailed design of Project facilities and to publicly disclose such plans, in places and using language accessible to all affected people, prior to submission of such plans to ADB for ADB's review, approval, and disclosure on ADB's website. Immediately upon receiving external monitoring reports, NWSDB shall submit such reports to ADB for disclosure on its website in a manner and language accessible to all affected people.

27. NWSDB shall ensure that (i) the Project is carried out in full compliance with ADB's *Environment Policy* (2002), as well as with Sri Lanka's relevant environmental laws and regulations; and (ii) all consultation, capacity building, mitigation, monitoring, and reporting measures indicated in the environmental management plans and in the relevant environmental approval document shall be undertaken in a timely manner.

28. Sri Lanka shall ensure that all civil works contractors comply with all applicable labor laws, do not employ child labor as defined in national legislation for construction and maintenance activities, and do not differentiate wages between men and women for work of equal value.

#### **5. Anti-corruption Measures**

29. Within two (2) months of the Effective Date, NWSDB shall have created a Project website, including for procurement matters. The website shall include at a minimum the following information: (i) bidding procedures, bidders, and contract awards for the Project; and (ii) use of the funds disbursed under the Project.

#### **6. Project Review**

30. NWSDB and ADB shall jointly review the Project twice a year.

31. Within two and a half (2½) years of the Effective Date, NWSDB and ADB shall jointly conduct a comprehensive mid-term review (MTR) of Project implementation. The MTR shall (i) examine the appropriateness of scope, design, implementation arrangements, and schedule of activities; (ii) assess implementation performance against Project indicators; (iii) evaluate the effect of new policies and their impact on service delivery; (iv) assess the

responsiveness of urban councils to requests for collection of waste and its impact on the overall sanitary conditions in Project towns; (v) evaluate the improvement in operational and financial performance indicators; (vi) review compliance with Project assurances; (vii) assess effectiveness of safeguard procedures; (viii) identify problems and constraints; and (ix) if necessary, recommend changes in any or all of the above areas. At the latest one (1) month prior to the MTR, NWSDB shall submit to ADB a comprehensive report on each of the above-mentioned areas.

## **7. Project Performance Monitoring System (PPMS)**

32. Within three (3) months of the Effective Date, the PCC shall have established a PPMS. Within nine (9) months of the Effective Date, the PCC shall have submitted baseline physical and socioeconomic data as well as a detailed implementation plan for monitoring performance to ADB for its review and concurrence. Where appropriate, data shall be disaggregated by gender. Thereafter, the PCC shall coordinate with the ROs to submit semiannual monitoring and evaluation reports to ADB.