
LOAN NUMBER 2711 (SF)-SRI

PROJECT AGREEMENT

(Jaffna and Kilinochchi Water Supply and Sanitation Project)

between

ASIAN DEVELOPMENT BANK

and

NORTHERN PROVINCIAL COUNCIL

DATED 8 February 2011

PAL: SRI 37378

PROJECT AGREEMENT

PROJECT AGREEMENT dated 8 February 2011 between ASIAN DEVELOPMENT BANK ("ADB") and the NORTHERN PROVINCIAL COUNCIL ("NPC").

WHEREAS

(A) by an agreement of even date herewith between the Borrower and ADB ("Special Operations Loan Agreement"), ADB has agreed to lend to the Borrower an amount in various currencies equivalent to forty four million two hundred eighty six thousand Special Drawing Rights (SDR44,286,000) for the purposes of the Project;

(B) by an agreement of even date herewith between the Borrower and ADB ("Ordinary Operations Loan Agreement"), ADB has agreed to lend to the Borrower from ADB's ordinary capital resources the amount of twenty million Dollars (\$20,000,000) ("Ordinary Operations Loan") for the purposes of the Project; and

(C) NPC, in consideration of ADB entering into the Special Operations Loan Agreement 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 Special Operations Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth, except that for purposes of this Project Agreement, the term "the Project" means part A of the Project, as described in Schedule 1 to the Special Operations Loan Agreement.

ARTICLE II

Particular Covenants

Section 2.01. (a) NPC shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, engineering, environmental, and management practices.

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

Section 2.02. NPC 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 Special Operations Loan, for the carrying out of the Project.

Section 2.03. (a) In the carrying out of the Project, NPC 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 Special Operations Loan 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. NPC shall carry out the Project in accordance with plans, design standards, specifications, work schedules and construction methods acceptable to ADB. NPC 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) NPC shall take out and maintain with responsible insurers, or make other arrangements satisfactory to ADB for, insurance of 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, NPC 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 Special Operations Loan 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. NPC 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 Special Operations Loan, 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 NPC shall cooperate fully to ensure that the purposes of the Loans will be accomplished.

(b) NPC 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 accomplishment of the purposes of the Loans.

(c) ADB and NPC 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, NPC and the Special Operations Loan.

Section 2.08. (a) NPC shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Special Operations Loan 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 NPC; and (v) any other matters relating to the purposes of the Loans.

(b) Without limiting the generality of the foregoing, NPC 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 3 months thereafter or such later date as ADB may agree for this purpose, NPC 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 NPC of its obligations under this Project Agreement and the accomplishment of the purposes of the Loans.

Section 2.09. (a) NPC 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 6 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 Special Operations Loan proceeds and compliance with the covenants of the Special Operations Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language. NPC 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) NPC shall enable ADB, upon ADB's request, to discuss NPC's financial statements and its financial affairs from time to time with the auditors appointed by NPC 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 NPC unless NPC shall otherwise agree.

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

Section 2.11. (a) NPC 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) NPC shall at all times conduct its business in accordance with sound administrative, financial, environmental, and management practices, and under the supervision of competent and experienced management and personnel.

(c) NPC 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, water supply and sanitation practices.

Section 2.12. Except as ADB may otherwise agree, NPC 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, NPC shall apply the proceeds of the Special Operations Loan to the financing of expenditures on the Project in accordance with the provisions of the Special Operations Loan Agreement 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.

ARTICLE III

Effective Date; Termination

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

Section 3.02. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under 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
6 ADB Avenue, Mandaluyong City
1550 Metro Manila, Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2340

For NPC

Chief Secretary
Northern Provincial Council
Kanniya Road, Varothayanagar,
Trincomalee, Sri Lanka

Facsimile Number:

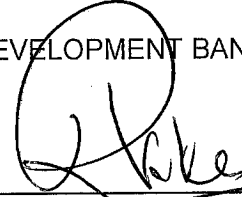
(94-26) 222-6952

Section 4.02. 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. VOKES~~

~~Country Director
Sri Lanka Resident Mission~~

NORTHERN PROVINCIAL COUNCIL

By



~~ARUMUGASWAMY SIVASWAMY~~

~~Chief Secretary~~

**A. SIVASWAMY
Chief Secretary
Northern Province**