
LOAN NUMBER 2201-SRI (SF)

PROJECT AGREEMENT
(Local Government Infrastructure Improvement Project)

between

ASIAN DEVELOPMENT BANK

and

LOCAL LOANS AND DEVELOPMENT FUND

DATED 19 January 2006

PAG: SRI 35201

PROJECT AGREEMENT

PROJECT AGREEMENT dated 19 January 2006 between ASIAN DEVELOPMENT BANK ("ADB") and LOCAL LOANS and DEVELOPMENT FUND ("LLDF")

WHEREAS

(A) by a Loan Agreement of even date herewith between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (the "Borrower") and ADB, ADB has agreed to make to the Borrower a Loan in various currencies equivalent to thirty four million four hundred and ninety six thousand Special Drawing Rights (SDR34,496,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that a portion of the proceeds of the Loan be made available to LLDF and that LLDF agree to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(B) LLDF, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the 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 terms (a) "the Project" means Component B of the Project, as described in Schedule 1 to the Loan Agreement, and (b) "Loan" means the portion of the proceeds of the Loan relent to LLDF under the Subsidiary Loan Agreement as described in Section 3.01 (a) of the Loan Agreement.

ARTICLE II

Particular Covenants

Section 2.01. (a) LLDF shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial intermediation practices, banking practices, loan facilitation practices, environmental and professional management practices, and under the supervision of competent and experienced management and personnel.

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

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

Section 2.03. (a) In the carrying out of the Project, LLDF 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 and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Loan Agreement. ADB may refuse to finance a contract where goods or 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. LLDF shall carry out the Project in accordance with plans, specifications, work schedules and construction methods in accordance to the Borrower's Laws acceptable to ADB. LLDF shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) LLDF shall cause the Subborrowers to make 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 LLDF shall cause the Subborrowers to insure the goods to be imported for the Project and to be financed out of the proceeds of the 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. LLDF shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the 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 LLDF shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) LLDF shall promptly inform ADB through the Borrower 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 Loan

Agreement, any onlending Subloan Agreement with an LA, any Performance Agreement with an LA, any Guarantee Agreement with a PC or the accomplishment of the purposes of the Loan.

(c) ADB and LLDF 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, LLDF and the Loan.

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

(b) Without limiting the generality of the foregoing, LLDF 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, LLDF 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 LLDF of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

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

Section 2.10. LLDF shall enable ADB's representatives to inspect the Project, the goods financed out of the proceeds of the Loan and any relevant records and documents.

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

Section 2.12. Except as ADB may otherwise agree, LLDF shall not sell, lease or otherwise dispose of any of its assets acquired for the purposes and necessary for the execution of this Project and 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, LLDF shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement. LLDF shall ensure that all goods and 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, LLDF shall duly perform all its obligations under the Subsidiary Loan Agreement, 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 Loan Agreement.

ARTICLE III

Effective Date; Termination

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

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) 636-2391

For LLDF

Local Loans and Development Fund
17 A Barnes Place
Colombo, Sri Lanka

Cable Address:

SECMINFIN
COLOMBO

Telex Number:

21232 FORAID COLOMBO
21409 FINMIN COLOMBO

Facsimile Number:

(94-11) 2687513

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 by or on behalf of LLDF may be taken or executed by its Chief Executive Officer of LLDF or by such other person or persons as the Chief Executive Officer of LLDF shall so designate in writing notified to ADB.

(b) LLDF 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 _____
PUNCHI BANDARA JAYASUNDERA
Authorized Representative

LOCAL LOANS AND DEVELOPMENT
FUND

By _____
ALESSANDRO A. PIO
Country Director
Sri Lanka Resident Mission