
LOAN NUMBER 3431-SRI(SF)

LOAN AGREEMENT
(Special Operations)

(Local Government Enhancement Sector Project – Additional Financing)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 2 NOVEMBER 2016

SRI 42459

**LOAN AGREEMENT
(Special Operations)**

LOAN AGREEMENT dated 2 November 2016 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a loan agreement dated 21 October 2011 between the Borrower and ADB ("Initial Loan Agreement"), ADB agreed to make a loan to the Borrower from ADB's Special Funds resources in the amount of thirty six million eight hundred ninety eight thousand Special Drawing Rights (SDR36,898,000) for the purposes of the project described in paragraph 2 of Schedule 1 to the Initial Loan Agreement;

(B) the Borrower has applied to ADB for a loan for the purposes of the expanded Project described in Schedule 1 to this Loan Agreement; and

(C) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

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

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(b) "Consulting Services" means the services to be financed out of the proceeds of the Loan referred to in paragraph 3 of Schedule 1 to this Loan Agreement;

(c) "Design and Supervision Consultant" or "DSC" means the design and supervision consultant to be recruited for the Project;

(d) "Eligible Subproject" means a subproject to be financed under the Project that meets the subproject selection criteria set forth in the PAM, pursuant to paragraph 4 of Schedule 5 to this Loan Agreement;

(e) "Environmental Assessment and Review Framework" or "EARF" means the environmental assessment and review framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(f) "Environmental Management Plan" or "EMP" means the environmental management plan for the Project, including any update thereto, incorporated in the IEE;

(g) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;

(h) "Gender Action Plan" or "GAP" means the gender action plan prepared for the Project and agreed between the Borrower and ADB;

(i) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding Consulting Services;

(j) "Indigenous Peoples Plan" or "IPP" means the indigenous peoples plan for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the IPPF and cleared by ADB;

(k) "Indigenous Peoples Planning Framework" or "IPPF" means the indigenous peoples planning framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(l) "Indigenous Peoples Safeguards" means the principles and requirements set forth in Chapter V, Appendix 3, and Appendix 4 (as applicable) of the SPS;

(m) "Initial Environmental Examination" or "IEE" means the initial environmental examination for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the EARF and cleared by ADB;

(n) "Involuntary Resettlement Safeguards" means the principles and requirements set forth in Chapter V, Appendix 2, and Appendix 4 (as applicable) of the SPS;

(o) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(p) "Local Authorities" means local government bodies such as municipal and urban councils, and Pradeshiya Sabhas;

(q) "Local Government Infrastructure Improvement Project" or "LGIIP" means the Local Government Infrastructure Improvement Project approved by the Board of Directors of ADB on 24 November 2005;

(r) "National Water Supply and Drainage Board" or "NWSDB" means the Borrower's National Water Supply and Drainage Board or any successor thereto;

(s) "Operation and Maintenance" or "O&M" means operation and maintenance of the systems developed or improved under the Project;

(t) "Pradeshiya Sabha(s)" means the local government authority of the Borrower created under the Pradeshiya Sabhas Act No. 15 of 1987 of the Borrower;

(u) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(v) "Procurement Plan" means the procurement plan for the Project dated July 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the Procurement Guidelines, the Consulting Guidelines, and other arrangements agreed with ADB;

(w) "Project Administration Manual" or "PAM" means the project administration manual for the Project dated July 2016 and agreed between the Borrower and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower and ADB;

(x) "Project Management Unit" or "PMU" means the project management unit established as Project Coordination Unit under the LGIIP within the Borrower's Ministry of Local Government and Provincial Councils, or any successor thereto acceptable to ADB;

(y) "Resettlement Framework" or "RF" means the resettlement framework for the Project, including any update thereto, prepared and submitted by the Borrower and cleared by ADB;

(z) "Resettlement Plan" or "RP" means the resettlement plan for the Project, including any update thereto, prepared and submitted by the Borrower pursuant to the requirements set forth in the RF and cleared by ADB;

(aa) "Safeguards Monitoring Report" means each report prepared and submitted by the Borrower to ADB that describes progress with implementation of, and compliance with, the EMP, the RP and the IPP (as applicable), including any corrective and preventative actions;

(bb) "Safeguard Policy Statement" or "SPS" means ADB's Safeguard Policy Statement (2009);

(cc) "Subproject Coordination Unit" or "SPCU" means the subproject coordination unit already established within each relevant provincial council to appraise, recommend and supervise implementation of Eligible Subprojects; and

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

ARTICLE II

The Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to forty three million three hundred five thousand Special Drawing Rights (SDR 43,305,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and 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 subsection (a) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower 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 Loan Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Loan in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. Except as ADB may otherwise agree, the Borrower shall cause all items of expenditure financed out of the proceeds of the Loan to be used exclusively in the carrying out of the Project.

Section 3.05. Withdrawals from the Loan 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 3.06. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2020 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. (a) The Borrower shall (i) maintain, or cause to be maintained, separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with financial reporting standards acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report, which includes the auditors' opinion(s) on the financial statements and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

(c) The Borrower shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and the Borrower's financial affairs where they relate to the Project with the auditors appointed pursuant to subsection (a)(iii) hereinabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted

only in the presence of an authorized officer of the Borrower, unless the Borrower shall otherwise agree.

Section 4.03. The Borrower shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

ARTICLE V

Effectiveness

Section 5.01. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of this Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. Each of the Secretary of Ministry of Finance, the Deputy Secretary to the Treasury and the Director General of the Department of External Resources, Ministry of National Policies and Economic Affairs, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

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

For the Borrower

Secretary
Ministry of Finance
Colombo 1
Sri Lanka

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

Facsimile Number:

+94 11 248-4563
+94 11 244-7633

For ADB

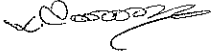
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

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

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

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By 
DR. R. H. S. SAMARATUNGA R H S SAMARATUNGA
Secretary Secretary
Ministry of Finance Ministry of Finance
Colombo 01
Sri Lanka.

ASIAN DEVELOPMENT BANK

By 
SRI WIDOWATI
Country Director
Sri Lanka Resident Mission

SCHEDULE 1**Description of the Project**

1. The objective of the Project is improved local infrastructure and services delivered effectively by local authorities or NWSDB in less-developed areas of seven provinces in Sri Lanka.
2. The Project shall comprise: (i) water supply systems in chronic kidney diseases affected areas improved; (ii) local infrastructure and basic service delivery improved; and (iii) local government policy reform advanced and capacity strengthened.
3. Consulting Services shall be provided in connection with the Project.
4. The Project is expected to be completed by 31 December 2019.

SCHEDULE 2

Amortization Schedule

(Local Government Enhancement Sector Project – Additional Financing)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)
15 November 2021	1,082,625
15 May 2022	1,082,625
15 November 2022	1,082,625
15 May 2023	1,082,625
15 November 2023	1,082,625
15 May 2024	1,082,625
15 November 2024	1,082,625
15 May 2025	1,082,625
15 November 2025	1,082,625
15 May 2026	1,082,625
15 November 2026	1,082,625
15 May 2027	1,082,625
15 November 2027	1,082,625
15 May 2028	1,082,625
15 November 2028	1,082,625
15 May 2029	1,082,625
15 November 2029	1,082,625
15 May 2030	1,082,625
15 November 2030	1,082,625
15 May 2031	1,082,625
15 November 2031	1,082,625
15 May 2032	1,082,625
15 November 2032	1,082,625
15 May 2033	1,082,625
15 November 2033	1,082,625
15 May 2034	1,082,625
15 November 2034	1,082,625
15 May 2035	1,082,625
15 November 2035	1,082,625
15 May 2036	1,082,625
15 November 2036	1,082,625
15 May 2037	1,082,625
15 November 2037	1,082,625
15 May 2038	1,082,625
15 November 2038	1,082,625
15 May 2039	1,082,625
15 November 2039	1,082,625
15 May 2040	1,082,625
15 November 2040	1,082,625
15 May 2041	<u>1,082,625</u>
TOTAL	43,305,000

* The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

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

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Interest Charge

3. The amount allocated to Category 5 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, by notice to the Borrower, (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 allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

5. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Retroactive Financing

6. Withdrawals from the Loan Account may be made to finance eligible expenditures incurred under the Project before the Effective Date, but not earlier than 12 months before the date of this Loan Agreement in connection with Goods, Works and Consulting Services, subject to a maximum amount equivalent to 20% of the Loan amount.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Local Government Enhancement Sector Project – Additional Financing)			
Number	Item	Total Amount Allocated for ADB Financing (SDR)	Basis for Withdrawal from the Loan Account
1	Works and Equipment	34,825,000	87% of total expenditure claimed
2	Consulting Services	2,887,000	85% of total expenditure claimed
3	Capacity Building	476,000	100% of total expenditure claimed
4	Incremental Recurrent Costs	2,598,000	100% of total expenditure claimed
5	Interest Charge	1,797,000	100% of amounts due
6	Unallocated	722,000	
	TOTAL	43,305,000	

SCHEDULE 4**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. Except as ADB may otherwise agree, Goods and Works shall be procured and Consulting Services shall be selected and engaged only on the basis of the procurement methods and the selection method set out below. These methods are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Borrower may only modify the procurement methods and the selection method or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.
3. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Goods and Works

4. Goods and Works shall be procured on the basis of the procurement methods set forth below:
 - (a) International Competitive Bidding;
 - (b) National Competitive Bidding; and
 - (c) Shopping.

National Competitive Bidding

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

Conditions for Award of Contract

6. The Borrower shall not award any Works contracts which involves environmental impacts until:
 - (a) it has prepared and submitted to ADB the final IEE based on the Project's detailed design, and obtained ADB's clearance thereof;
 - (b) if required under national laws or regulations, the Central Environmental Authority of the Borrower has granted the final approval of the IEE; and

- (c) it has incorporated the relevant provisions from the EMP into the Works contract.

7. The Borrower shall not award any Works contract which involves involuntary resettlement impacts until it has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

8. The Borrower shall not award any Works contract which involves impacts on indigenous peoples until it has prepared and submitted to ADB the final IPP, and obtained ADB's clearance of such IPP.

Consulting Services

9. Except as set forth in the paragraph below, the Borrower shall apply Quality- and Cost-Based Selection for selecting and engaging Consulting Services.

10. The Borrower shall apply the following selection method for the specified Consulting Services, in accordance with, among other things, the procedures set forth in the Procurement Plan: Single Source Selection for project management consultant and design and supervision consultants.

11. The Borrower shall recruit individual consultants in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

12. (a) The Borrower 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) The Borrower 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.

13. The Borrower 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.

ADB's Review of Procurement Decisions

14. Contracts procured under international competitive bidding procedures and contracts for Consulting Services shall be subject to prior review by ADB, unless otherwise agreed between the Borrower and ADB and set forth in the Procurement Plan.

SCHEDULE 5

Execution of Project

Implementation Arrangements

1. The Borrower shall ensure, or shall cause to be ensured, that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower and ADB. In the event of any discrepancy between the PAM and the Loan Agreement, the provisions of the Loan Agreement shall prevail.

2. The Borrower shall ensure, or shall cause to be ensured, that the existing implementation arrangements for LGIIP are utilized under the Project, including the National Steering Committee which shall continue to provide direction to and oversight of the entities implementing the Project, and that all such entities shall continue and fully and effectively carry out the respective functions in support of the Project, notwithstanding completion of the LGIIP.

3. The Borrower shall ensure, or shall cause to be ensured, that the PMU, and through the Provincial Councils shall ensure that the SPCUs, engage sufficient staff for the duration of the Project with adequate knowledge in the field of project management, financial management, engineering, construction supervision, procurement, construction and equipment inspection and testing, environmental and social safeguards, and gender and social development. The Borrower shall keep, or shall cause to be kept, the PMU and the SPCUs equipped with the necessary office space, facilities, equipment, support staff and management information systems for the entire duration of the Project.

Eligible Subprojects

4. The Borrower shall ensure, or cause to be ensured, that the Eligible Subprojects are selected in accordance with the agreed criteria described in the PAM, and are implemented in a manner satisfactory to ADB.

5. The Borrower shall take, or cause to be taken, all appropriate measures to ensure that the Eligible Subprojects contribute to minimizing social tension, and in the event that any Eligible Subproject has or is expected to have a negative impact, the Borrower and ADB, in coordination with the PMU, shall jointly determine whether to continue, redesign, suspend, or cancel such Eligible Subproject.

6. The Borrower shall ensure, or cause to be ensured, that all documents forming the basis for screening, selection and processing of Eligible Subprojects are made available to ADB upon request and are kept available for such purposes for a minimum period of five years from the date of the project completion report for the Project.

7. The Borrower shall ensure, or cause to be ensured, that (a) ADB and the Project staff, contractors, and consultants have a reasonable and safe access to the Eligible Subproject areas, and (b) there is unhindered movement of materials, vehicles, equipment and other items required for Project implementation to the Eligible Subproject areas.

Environment

8. The Borrower shall ensure, or cause to be ensured, that the preparation, design, construction, implementation and operation of the Project, including each Eligible Subproject, comply with (a) applicable laws and regulations of the Borrower relating to environment, health and safety; (b) the Environmental Safeguards; (c) the EARF; and (d) all measures and requirements set forth in the IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

9. The Borrower shall ensure, or cause to be ensured, that all land and all rights-of-way required for an Eligible Subproject are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Borrower relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; (c) the RF; and (d) all measures and requirements set forth in any RP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report. The Borrower shall ensure that any subproject causing or likely to cause a significant resettlement impact on 200 or more people shall not be financed under the Project.

10. Without limiting the application of the Involuntary Resettlement Safeguards, RF or the RP, the Borrower shall ensure, or cause to be ensured, that no physical or economic displacement takes place in connection with an Eligible Subproject until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Indigenous Peoples

11. The Borrower shall ensure, or cause to be ensured, that the preparation, design, construction, implementation and operation of the Project and all Project facilities comply with (a) all applicable laws and regulations of the Borrower relating to indigenous peoples; (b) the Indigenous Peoples Safeguards; (c) the IPPF; and (d) all measures and requirements set forth in any IPP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

12. The Borrower shall make available, or cause to be made available, necessary budgetary and human resources to fully implement the EMP, the RP and the IPP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

13. The Borrower shall ensure, or cause to be ensured, that all bidding documents and contracts for Works contain provisions that require contractors to:
- (a) comply with the measures relevant to the contractor set forth in any IEE, EMP, RP and IPP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
 - (b) make available a budget for all such environmental and social measures;
 - (c) provide the Borrower with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in any IEE, EMP, RP and IPP;
 - (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
 - (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

14. The Borrower shall do, or shall ensure the following are done:
- (a) submit semiannual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
 - (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in any IEE, EMP, RP and IPP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
 - (c) report any actual or potential breach of compliance with the measures and requirements set forth in any EMP, RP or IPP promptly after becoming aware of the breach.

Prohibited List of Investments

15. The Borrower shall ensure, or cause to be ensured, that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

16. The Borrower shall ensure, or cause to be ensured, that the core labor standards and its applicable laws and regulations are complied with during Project implementation. The Borrower shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors, among other things: (a) comply with the Borrower's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor; (c) do not discriminate workers in respect of employment and occupation; (d) do not use forced labor; (e) allow freedom of association and effectively recognize the right to collective bargaining; and (f) disseminate, or engage appropriate service providers to disseminate, information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area, particularly women. The Borrower shall strictly monitor compliance with the requirements set forth above and provide ADB with regular reports.

Gender and Development

17. The Borrower shall ensure, or cause to be ensured, that (a) the GAP is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the GAP; (c) adequate resources are allocated for implementation of the GAP; and (d) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Counterpart Support

18. The Borrower shall make available, or cause to be made available, counterpart funds required for timely and effective implementation of the Project, including any funds required to make land available for the Project, to mitigate unforeseen environmental and social impacts and to meet additional costs arising from design changes, price escalation in construction costs or other unforeseen circumstances. In addition to the foregoing, the Borrower shall ensure that sufficient funds are available to satisfy liabilities arising from any Works, Goods and/or Consulting Services contract.

Governance and Anticorruption

19. The Borrower shall do, or shall ensure that the following are done: (i) comply with ADB's Anticorruption Policy (1998, as amended to date), and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (ii) cooperate fully with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

20. The Borrower shall ensure, or shall cause to be ensured, that anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.

21. The Borrower shall allow and facilitate, or shall cause to be allowed and facilitated, ADB's representatives to conduct spot and random checks on (a) flow of funds through all the imprest accounts, and their use for the Project in accordance with the Loan Agreement; (b) work-in-progress; and (c) Eligible Subproject implementation.

22. Within 6 months of the Effective Date, the Borrower shall ensure, or shall cause to be ensured, that the PMU creates or modifies a Project website to disclose information about various matters on the Project. The website shall include information on Project procurement including the list of participating bidders, name of each winning bidder, basic details on bidding procedures adopted, the value of each contract awarded, and the list and value of goods/services procured and the intended utilization of Loan proceeds under each contract being awarded. The website shall also include general Project information, Project progress, and contact details for the PMU's counterpart staff in Sri Lankan and English languages, and shall link to ADB's Integrity Unit website at <http://www.adb.org/integrity/complaint.asp> for reporting to ADB any grievances or allegations of corrupt practices arising out of the Project and/or Project activities. The Borrower shall cause the PMU to ensure that all Project staff are fully aware of ADB's procedures, including, but not limited to, procedures for implementation, procurement, use of consultants, disbursements, reporting, monitoring, and prevention of fraud and corruption.

23. The Borrower shall ensure, or shall cause to be ensured, that all representation letters from the Project auditor are submitted to ADB and any outstanding issues attended to within 1 month of receipt by the PMU, unless otherwise agreed with ADB.

24. The Borrower shall ensure, or shall cause to be ensured, that transparent and merit-based selection criteria shall be used in the selection of staff for training and capacity development under the Project.

Project Performance Management System

25. Within 6 months of Effective Date, the PMU shall establish a project performance management system satisfactory to ADB. The PMU shall ensure, during the detailed design of subprojects, that baseline data corresponding to indicators and targets set out in the design and monitoring framework, disaggregated by sex and ethnicity, where appropriate, shall be augmented through a benchmark survey as a part of DSC work.

Grievance Redress Mechanism

26. Within 6 months of Effective Date, the Borrower, through the PMU, shall finalize, or shall cause to be finalized, a grievance redress mechanism, acceptable to ADB, and ensure that there is appointed an officer, with the requisite capacity, in each SPCU, to receive, resolve or act upon, both independently and expeditiously, complaints or grievances or reports from stakeholders on misuse of funds and other irregularities relating to the project or the specific subprojects in each Provincial Council, including but not limited to grievances due to resettlement and environmental impacts. Each SPCU shall inform stakeholders of their right to submit complaints or grievances relating to the project.

O&M and Policy Development

27. The Borrower shall ensure, or shall cause to be ensured, that the Local Authorities, or the NWSDB, as the case may be, which are responsible for the O&M of the systems developed or improved under the Project shall secure and allocate adequate funds for proper O&M of the systems, by providing necessary technical and financial support.

28. The Borrower shall ensure, or shall cause to be ensured, that there shall be complementarity and no overlap of activities between Eligible Subprojects and projects funded by other development partners.

29. The Borrower shall closely monitor, or shall cause to be closely monitored, the implementation performance of the reform plans of those Local Authorities that are carrying out Eligible Subprojects and ensure that successful implementation of reforms under such reform plans is a key factor in determining the level of budgetary support for the relevant Local Authority.