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CREDIT NUMBER 1401 CE

Project Agreement

(Industrial Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

NATIONAL DEVELOPMENT BANK OF SRI LANKA

Dated

October 12, 1983

PROJECT AGREEMENT

AGREEMENT, dated *October 12*, 1983, between INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and NATIONAL DEVELOPMENT BANK OF SRI LANKA (hereinafter called NDB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Democratic Socialist Republic of Sri Lanka (hereinafter called the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-three million one hundred thousand Special Drawing Rights (SDR 23,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that NDB agree to undertake such obligations toward the Association as are hereinafter set forth;

(B) by a subsidiary loan agreement to be entered into between the Borrower and NDB, part of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to NDB on the terms and conditions therein set forth; and

WHEREAS NDB, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. NDB shall carry out its part of Part A of the Project and carry out Part B.1 of the Project, described in Schedule 2 to the Development Credit Agreement, with due diligence

and efficiency and in conformity with appropriate administrative, financial and investment standards and practices, and in accordance with the NDB Act, the NDB Statement of Policy and the NDB Strategy Statement.

Section 2.02. In order to assist NDB in carrying out Part B.1 of the Project, NDB shall employ consultants whose selection, qualifications, experience and terms and conditions of employment shall be satisfactory to the Association in accordance with the principles and procedures described in the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

Section 2.03. (a) In accordance with and subject to the provisions of the Development Credit Agreement, NDB shall submit Investment Projects to the Association for approval or for authorization for withdrawals to be made from the Credit Account. NDB shall submit to the Association for approval the first three Sub-loans for Investment Projects in the public sector and the first three Sub-loans for Investment Projects in the private sector.

(b) (i) When submitting a Sub-loan (other than a free-limit Sub-loan but including the Sub-loans referred to in paragraph (a) of this Section) to the Association for approval, NDB shall furnish to the Association an application, in form satisfactory to the Association, together with a description of the Investment Enterprise and of the Investment Project to be financed thereunder (including a description of the expenditures for such Investment Project proposed to be financed by NDB and an appraisal of the Investment Project) and the proposed terms and conditions of the Sub-loan including the schedule of amortization of the Sub-loan, and such other information as the Association shall reasonably request; and (ii) such appraisals will include a calculation of the internal financial rate of return and, in cases of import substitution, an evaluation of the economic viability established in accordance with guidelines satisfactory to the Association.

(c) Each request by NDB for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain a summary description of the Investment Enterprise and the Investment Project (including a description of the expenditures proposed to be financed out of the proceeds of the Credit) and the terms and conditions of such free-limit Sub-loan, including the schedule of amortization therefor.

(d) The amortization schedule applicable to each Investment Project shall provide for an appropriate period of grace and, unless the Association and the Borrower shall otherwise agree: (i) shall not extend beyond 15 years (including the grace period) from the date of commitment by NDB of such Investment Project or of authorization by the Association to make withdrawals from the Credit Account in respect of such Investment Project, whichever is later; and (ii) shall provide for approximately equal semi-annual, or more frequent, aggregate payments of principal and interest or approximately equal semi-annual, or more frequent, payments of principal.

(e) Except as the Association shall otherwise agree, NDB shall not submit an application for approval pursuant to the provisions of paragraph (b) of this Section or a request for authorization to withdraw from the Credit Account pursuant to the provisions of paragraph (c) of this Section, unless NDB has complied with the provisions of Section 3.04 of this Agreement.

(f) Except as the Association and NDB shall otherwise agree, NDB shall submit applications for approval pursuant to the provisions of paragraph (b) of this Section and requests for authorizations to withdraw from the Credit Account pursuant to the provisions of paragraph (c) of this Section on or before September 30, 1986.

Section 2.04. With respect to Part A of the Project: (a) NDB undertakes that, unless the Association shall otherwise agree, any Sub-loan will be made on terms whereby NDB shall obtain, by written contract with the Investment Enterprise or by other appropriate legal means, rights adequate to protect the interests of the Association and NDB, including, in the case of any Sub-loan, the right of NDB to: (i) require the Investment Enterprise to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records; (ii) require that: (1) the goods and services to be financed out of the proceeds of the Credit shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of services, of their quality and the competence of the parties rendering them, provided that contracts each costing the equivalent of \$2,000,000 or more, shall be awarded in accordance with limited international bidding

procedures satisfactory to the Association, and (2) such goods and services shall be used exclusively in the carrying out of the Investment Project; (iii) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents; (iv) require that: (1) the Investment Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (2) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Investment Enterprise to replace or repair such goods; (v) obtain all such information as the Association or NDB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Investment Enterprise and to the benefits to be derived from the Investment Project; and (vi) suspend or terminate the right of the Investment Enterprise to the use of the proceeds of the Credit upon failure by such Investment Enterprise to perform its obligations under its contract with NDB.

(b) NDB shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and NDB, (ii) comply with its obligations under this Agreement and the NDB Subsidiary Loan Agreement, and (iii) achieve the purposes of the Project.

(c) NDB shall furnish to the Association all such information as the Association shall reasonably request concerning the expenditure of the proceeds of the Sub-loans, the Project, the Investment Enterprises, the Investment Projects, and the Sub-loans.

Within six months following the last withdrawal from the Credit Account, NDB shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Investment Projects, their costs and the benefits derived and to be derived from them, the performance by NDB and the Association of their respective obligations under this Agreement and the accomplishment of the purposes of the Credit.

Section 2.05. With respect to Part B.1 of the Project: (a) NDB shall furnish to the Association, promptly upon their preparation, the plans, reports, training programs, contract documents and schedules for Part B.1 of the Project, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) NDB shall: (i) maintain records and procedures adequate to record and monitor the progress of Part B.1 of the Project (including its cost and the benefits to be derived from it), to identify the services financed out of the proceeds of the Credit, and to disclose their use in Part B.1 of the Project; (ii) enable the Association's representatives to examine any relevant records and documents; and (iii) furnish to the Association at regular intervals all such information as the Association shall reasonably request concerning Part B.1 of the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Credit and the services financed out of such proceeds.

(c) Upon the award by NDB of any contract for goods, works or services to be financed out of the proceeds of the Credit, the Association may publish a description thereof, the name and nationality of the party to whom the contract was awarded and the contract price.

(d) Promptly after completion of Part B.1 of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between NDB and the Association, NDB shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by NDB and the Association of their respective obligations under the Project Agreement and the accomplishment of the purposes of the Credit.

Section 2.06. NDB shall duly perform all its obligations under the NDB Subsidiary Loan Agreement. Except as the Association shall otherwise agree, NDB shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the NDB Subsidiary Loan Agreement or any provision thereof.

Section 2.07. NDB shall cause each of its Subsidiaries (if any) to observe and perform the obligations of NDB under this

Agreement to the extent to which the same may be made applicable thereto as though such obligations were binding upon each of such Subsidiaries.

Section 2.08. (a) NDB shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the NDB Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) NDB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by NDB of its obligations under this Agreement or under the NDB Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of NDB

Section 3.01. NDB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and investment standards and practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. Except as the Association and NDB shall otherwise agree, NDB shall: (i) not sell, lease, transfer or otherwise dispose of any of its property or assets, except in the ordinary course of business; and (ii) take all action necessary to maintain its corporate existence and right to carry on operations and to acquire, maintain and renew all rights, powers, privileges and franchises necessary or useful in the conduct of its business.

Section 3.03. NDB shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. (a) NDB shall adopt a Statement of Policy and a Strategy Statement satisfactory to the Association.

(b) NDB shall establish a unit responsible for project identification and promotion, to be maintained with staff in numbers and with qualifications satisfactory to the Association.

Section 3.05. NDB shall, by March 31, 1984 complete the staffing of the unit referred to in Section 3.04 (b) of this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. NDB shall maintain procedures, records and separate accounts adequate to monitor and record the progress of Part B.1 of the Project and of each Investment Project, and to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition and shall enable the Association's representatives to examine such records.

Section 4.02. NDB shall:

(a) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (i) certified copies of its financial statements for such year as so audited; and (ii) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested, including, without limitation to the foregoing, separate opinions by said auditors on the separate accounts referred to in Section 4.01 of this Agreement; and

(c) furnish to the Association such other information concerning said accounts, financial statements, records and expenditures, as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.03. Except as the Association shall otherwise agree, NDB shall:

(a) conduct its operations and affairs in such manner as shall be necessary to maintain, at all times, its debt/equity ratio within the limit referred to in Section 4.04 of this Agreement; and

(b) if such ratio shall, for reasons beyond NDB's control, be exceeded, promptly take all such reasonable action as shall be necessary or advisable to bring such ratio within such limit.

Section 4.04. Except as the Association and NDB shall otherwise agree, NDB shall not incur or permit any of its Subsidiaries to incur any debt if, after the incurring of such debt, the consolidated debt of NDB and all its Subsidiaries then incurred and outstanding would exceed eight times the consolidated capital and surplus of NDB and all its Subsidiaries. For the purpose of this Section:

(a) The term "debt" means any debt incurred by NDB or any Subsidiary maturing more than one year after the date on which it is originally incurred, including debt assumed or guaranteed by NDB or by a Subsidiary.

(b) Wherever reference is made in this Section to the incurring of debt, such reference shall include any modification of the terms of payment of such debt. Debt shall be deemed to be incurred: (i) under a loan contract or agreement, on the date and to the extent the loan is drawn down pursuant to such loan contract or agreement; and (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into but only to the extent the guaranteed debt is outstanding.

(c) Whenever in connection with this Section it shall be necessary to value in terms of Rupee debt payable in foreign currency, such valuation shall be made at the prevailing lawful rate of exchange at which such foreign currency is, at the time of such valuation, obtainable in Sri Lanka for the purposes of servicing such debt.

(d) The term "consolidated debt of NDB and all its Subsidiaries" means the total amount of debt of NDB and all its Subsidiaries excluding: (i) debt owed by NDB to any Subsidiary or by any Subsidiary to NDB or to any other Subsidiary; and (ii) debt referred to in paragraph (e) (ii); and (iii) of this Section.

(e) The term "consolidated capital and surplus of NDB and all its Subsidiaries" means the aggregate of: (i) the total unimpaired paid-in capital, surplus and free reserves of NDB and of all its Subsidiaries after excluding therefrom such amounts as shall represent equity interests of NDB in any Subsidiary, or of any such Subsidiary in NDB or in any other Subsidiary; (ii) the

amount of the loans and credits extended to NDB by the Bank and the Association; and (iii) such amount of any other loan which the Association may determine to be included in the consolidated capital and surplus of NDB.

Section 4.05. Except as the Association and NDB shall otherwise agree, NDB shall not make any repayment in advance of maturity in respect of any of its borrowings (other than deposits) having an original term exceeding one year.

Section 4.06. NDB shall take such steps satisfactory to the Association as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the various currencies (including Rupees) used in its borrowing and lending operations.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of NDB thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) a date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify NDB of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this 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 or radiogram to the party to which it is required or permitted to be given or made at such party's 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 the Bank:

International Development
Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For NDB:

National Development Bank of Sri Lanka
P.O. Box 1825
6th Floor, Ceylinco House
Colombo 1, Sri Lanka

Cable Address:

DEVBANK
Colombo

Telex:

21399 NDB CE

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of NDB, or by NDB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its General Manager or such other person or persons as NDB

shall designate in writing, and NDB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ *Wilfried P. Thalwitz*
Acting Regional Vice President
South Asia

NATIONAL DEVELOPMENT BANK OF SRI LANKA

By /s/ *Ernest Corea*
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

CERTIFICATE

I hereby certify that the foregoing is a true copy of the original in the archives of the International Development Association.

In witness whereof I have signed this Certificate and affixed the Seal of the Association thereunto the 12th day of October, 198 3.



FOR SECRETARY