

CONFORMED COPY

CREDIT NUMBER 2297 CE

(Second Power Distribution and Transmission Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CEYLON ELECTRICITY BOARD

Dated September 20, 1991

CREDIT NUMBER 2297 CE

PROJECT AGREEMENT

AGREEMENT, dated September 20, 1991, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CEYLON ELECTRICITY BOARD (the Board).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Democratic Socialist Republic of Sri Lanka (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to thirty-seven million five hundred thousand Special Drawing Rights (SDR 37,500,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Board agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and the Board, the proceeds of the Credit provided for under the Development Credit Agreement will be relented to the Board on the terms and conditions set forth in said Subsidiary Loan Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) The Board declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Board shall otherwise agree, the Board shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. The Board shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. The Board shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, the Board shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) The Board 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 Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) The Board 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 the Board of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of the Board

Section 3.01. (a) The Board shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) The Board shall at all times maintain its corporate existence and the right to carry on its operations and take all steps necessary to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

Section 3.02. (a) The Board shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

(b) Except in the normal course of business, the Board shall not sell, transfer or otherwise dispose of any of its property or assets which shall be required for the efficient operation of its business.

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) the Board shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) the Board shall:

- (i) have its records, 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;
- (ii) furnish to the Association as soon as available, but in any case not later than: (A) four months after the end of each such year certified copies of its unaudited financial statements for such year; and (B) ten months after the end of each such year certified copies of its financial statements for such year as so audited, together with the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

Section 4.02. (a) Except as the Association shall otherwise agree, the Board shall not incur any debt unless its net revenues for the fiscal year immediately preceding such incurrence or for a later twelve-month period ended prior to such incurrence, whichever is the greater, shall be not less than 1.5 times the maximum debt service requirements for any succeeding fiscal year on all debt including the debt to be incurred.

(b) For the purposes of this Section:

- (i) the term "debt" means all debt of the Board, including debt for the service of which the Board is responsible, maturing by its terms more than one year after the date on which it is originally incurred;
- (ii) debt shall be deemed to be incurred on the date of execution and delivery of a contract, loan agreement or other instrument providing for such debt;
- (iii) the term "net revenues" means gross revenues from all sources, adjusted to take account of the Board's tariffs in effect at the time of the incurrence of debt even though they were not in effect during the fiscal year or twelve-month period to which such revenues relate, less all expenses of operation and maintenance in connection with the generation, transmission and distribution of electricity, administration, and taxes, if any, but before deduction of provision for depreciation of assets, interest and other charges on debt;
- (iv) the term "debt service requirements" means the aggregate amount of amortization (including sinking fund allocations, if any) of, and interest and other charges on, debt; and
- (v) whenever for the purposes of this Section, or of Section 4.03 hereof, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable, for the purposes of servicing such debt, or, if such other currency is not so obtainable, at such rate of exchange as shall be reasonably determined by the Association.

Section 4.03. (a) Except as the Association shall otherwise agree, the Board shall, before the start of each fiscal year, review and adjust, if necessary, its tariffs, to provide sufficient revenue to cover operating

expenses including taxes, if any, any straight-line depreciation, and to produce an annual return on the current value of its net fixed assets in service of not less than 7% for the years 1992 and 1993, and 8% thereafter.

(b) For purposes of this Section:

- (i) the annual return shall be calculated by relating net income before interest and other charges on debt for that year to the average of the current value of net fixed assets in service at the beginning and at the end of that year;
- (ii) the term "current value of the net fixed assets" means the gross value of fixed assets as annually reviewed and revalued from time to time, on the basis of appropriate methods of valuation acceptable to the Association, less the amounts accumulated in respect of:
 - (A) depreciation of assets (as so revalued); and
 - (B) consumers' contributions or other contributions to capital expenditures all in accordance with proper accounting principles consistently applied;
- (iii) the term "net income" means all revenues of the Board except income from investments not directly related to its operations, less all operating expenses;
- (iv) the term "operating expenses" means all expenses of operation and maintenance in connection with the generation, transmission and distribution of electricity, and of administration, including adequate provision for depreciation, and for taxes, if any, but excluding provision for interest and other charges on debt; and
- (v) the term "debt" has the meaning set forth in Section 4.02 (b) (i) of this Agreement.

Section 4.04. (a) Except as the Association shall otherwise agree, the Board shall maintain a ratio of current assets to current liabilities of not less than 1.2.

(b) Before the start of each of its fiscal years, the Board shall, on the basis of forecasts prepared by the Board and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that the Board would not meet the requirements set forth in paragraph (a) for the Board's fiscal years covered by such review, the Board shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

- (d) For the purposes of this Section:
- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (iii) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

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 the Board 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) the 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 the Board 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 Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

For the Board:

Ceylon Electricity Board
P.O. Box 540
Colombo
Sri Lanka

Cable address:

KILOWATTS
Colombo

Telex:

21368 KILLOWATTS 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 the Board may be taken or executed by its Chairman or such other person or persons as the Board shall designate in writing, and the Board 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 duly authorized representatives, 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/ Jochen Kraske
Acting Regional Vice President
Asia

CEYLON ELECTRICITY BOARD

By /s/ Susantha de Alwis
Authorized Representative

SCHEDULE 1
Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Part B of the Project shall be procured under turn-key contracts providing for the supply and erection of the transmission lines, related substations and compensation equipment.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Sri Lanka may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

(a) Contracts for civil works and erection services under Part A of the Project up to an aggregate amount not exceeding the equivalent of \$3,600,000; and

(b) Items or groups of items for Part A of the Project up to an aggregate amount equivalent to \$100,000; may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part

of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.

(c) The provisions of the preceding sub-paragraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist in carrying out the Project, the Board shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of 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.

SCHEDULE 2

Implementation Program

1. The Board shall take all measures necessary to ensure that on and after December 31, 1991, total dues for electricity supplied by the Board shall not exceed three months' billing.

2. For the purposes of self insurance of its assets, the Board shall, within eleven months of the end of its fiscal year, deposit its annual provision to the insurance reserve in an insurance escrow account with an independent financial institution.

3. The Board shall:

(a) by November 30, 1991 furnish to the Association a staff training program; and

(b) implement the staff training program satisfactory to the Association.

