

CONFORMED COPY

CREDIT NUMBER 2938 CE
GEF TRUST FUND GRANT NUMBER TF 028955 CE

Project Agreement

(Energy Services Delivery Project)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global
Environment Facility

and

CEYLON ELECTRICITY BOARD

Dated April 22, 1997

CREDIT NUMBER 2938 CE
GEF TRUST FUND GRANT NUMBER TF 028955 CE

PROJECT AGREEMENT

AGREEMENT, dated April 22, 1997, among INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an Implementing Agency of the Global Environment Facility (GEF) and CEYLON ELECTRICITY BOARD (CEB).

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 lend to the Borrower an amount in various currencies equivalent to sixteen million nine hundred thousand Special Drawing Rights (SDR 16,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that CEB agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by the Global Environment Facility Trust Fund Grant Agreement (Grant Agreement) of even date herewith between Democratic Socialist Republic of Sri Lanka (the Recipient) and the International Bank for Reconstruction and Development (the Bank) acting as an implementing agency of the GEF, the Bank has agreed to make available

to the Recipient an amount in various currencies equivalent to four million two hundred thousand Special Drawing Rights (SDR 4,200,000) (the Grant) on the terms and conditions set forth in the Grant Agreement;

(C) Parts B and C of the Project will be carried out by CEB with the Borrower's assistance, and, as part of such assistance, the Borrower will make available to CEB part of the proceeds of the credit (under the subsidiary loan agreement referred to in Recital (D) below) and part of the proceeds of the Grant, as provided in this Agreement;

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

WHEREAS CEB, 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) CEB 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 Parts B and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility standards and practices, and shall provide or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the carrying out of Parts B and C of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association, the Bank and CEB shall otherwise agree, CEB shall carry out Parts B and C of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association and the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts B and C of the Project and to be financed out of the proceeds of the Credit and the Grant shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. (a) CEB 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 applicable to the Development Credit Agreement (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of the Project Agreement and Parts B and C of the Project.

(b) For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, CEB shall prepare and furnish to the Association and the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and the Bank and CEB, a plan satisfactory to the Association and the Bank for the future operation of Parts B and

C of the Project.

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

(b) CEB shall, at the request of the Association, exchange views with the Association with regard to the performance of its obligations under the Subsidiary Loan Agreement; and

(c) CEB shall promptly inform the Association of any condition which interferes or threatens to interfere with the performance by CEB of its obligations under the Subsidiary Loan Agreement.

Section 2.05. (a) CEB shall, at the request of the Association or the Bank, exchange views with the Association and the Bank with regard to the progress of Parts B and C of the Project, the performance of its obligations under this Agreement and other matters relating to the purposes of the Credit and the Grant.

(b) CEB shall promptly inform the Association and the Bank of any condition which interferes or threatens to interfere with the progress of Parts B and C of the Project, the accomplishment of the purposes of the Credit and the Grant, or the performance by CEB of its obligations under this Agreement.

ARTICLE III

Management and Operations of CEB

Section 3.01. (a) CEB 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) CEB 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) CEB 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 normal course of business, CEB 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. CEB shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association and the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) CEB shall maintain procedures and records adequate to monitor and record the progress of Parts B and C of the Project and to reflect in accordance with sound accounting practices its operations and financial condition.

(b) CEB shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses

and related statements) including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association and the Bank;

- (ii) furnish to the Association and the Bank, 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) six 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 and the Bank shall have reasonably requested; and
- (iii) furnish to the Association and the Bank 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. CEB 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 the currency of the Borrower) used in its 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 and the Grant Agreement become effective.

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

- (i) the date on which the Development Credit Agreement and the Grant Agreement shall terminate in accordance with their terms; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement or the Grant Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association and the Bank shall promptly notify CEB 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 addresses 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:	Telex:
INTBAFRAD	197688 (TRT)
Washington, D.C.	248423 (RCA)
	64145 (WUI) or
	82987 (FTCC)

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:
INTBAFRAD	197688 (TRT)
Washington, D.C.	248423 (RCA)
	64145 (WUI) or
	82987 (FTCC)

For CEB:

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

Cable address:	Telex:
KILOWATS	21368 Kilowatts CE
Colombo	

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of CEB may be taken or executed by its General Manager, or by such other person or persons as CEB shall designate in writing, and CEB 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.

Section 6.04. As long as the Bank has not given notice to the contrary to CEB, and so long as the Development Credit Agreement shall not have terminated prior to the termination of the Grant Agreement:

(a) the obligation of CEB to consult with, and furnish information, documents, plans, reports, records and statements to the Bank shall be satisfied to the extent performance in respect of such obligations is rendered to the Association;

(b) the obligations of the Bank to consult with, and to furnish information to CEB shall be satisfied to the extent such obligations are satisfied by the Association; and

(c) all actions taken (including giving of approvals or granting of waivers) by the Association pursuant to the Development Credit Agreement shall be deemed to be taken pursuant to both the Development Credit Agreement and the Grant Agreement, and in the name and on behalf of the Association and the Bank.

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
INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
acting as an Implementing Agency of the
Global Environment Facility

By /s/ Fakhruddin Ahmed
Acting Regional Vice President
South Asia

CEYLON ELECTRICITY BOARD

By /s/ Jayantha Dhanapala
Authorized Representative

SCHEDULE 1

Implementation Program

1. CEB shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association and the Bank, the carrying out of Parts B and C of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association and the Bank, and furnish to the Association and the Bank no later than two months prior to the date specified in paragraph (c) below, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Parts B and C of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association and the Bank, on the earlier of the date which is two years from the date of this Agreement or the date on which amounts authorized for withdrawal from the Credit Account in respect of Part A of the Project total the equivalent of \$10,000,000 (or such later date as the Association and the Bank shall request), the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Parts B and C of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association and the Bank's views on the matter; and

(d) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after commissioning of the Pilot Wind Farm under Part B of the Project, a report on the execution and initial operation of Part B of the Project, its cost and the benefits derived and to

be derived from it, and the performance by the Borrower and the Association of their respective obligations under this Agreement and the accomplishment of the purposes of the Credit in respect of Part B of the Project.

2. CEB shall assist throughout the duration of the Project, in the carrying out of all reviews (including the Mid-Term Review) to be undertaken in accordance with Part B of Schedule 5 of the Development Credit Agreement and to this end shall promptly make available all staff, records and information deemed necessary or desirable by the Borrower and the Association for the carrying out of each review.

3. CEB shall implement Part C of the Project in accordance with the Pre-electrification Unit Terms of Reference and the Demand Side Management Unit Terms of Reference agreed with the Association and the Bank, as such Terms of Reference may be amended from time to time with the agreement of the Association and the Bank.

4. In respect of Part B of the Project (Pilot Wind Farm), CEB shall:

(a) maintain oversight and management arrangements satisfactory to the Association and the Bank, such arrangements to include a Project Manager with experience, skills and qualifications satisfactory to the Borrower, the Association and the Bank to supervise and coordinate implementation;

(b) except as the Association may otherwise agree, ensure that operation of the Pilot Wind Farm commences no later than June 30, 1998, and monitor the initial operation of the Pilot Wind Farm by the contractor;

(c) thereafter assume the contractor's responsibility for Pilot Wind Farm operation and performance; and

(d) prepare semi-annual reports satisfactory to the Association on Pilot Wind Farm operation and performance, such reports to be made publicly available.

5. In respect of Part C of the Project (Capacity Building), CEB shall maintain oversight and management arrangements satisfactory to the Association, and shall:

(a) promptly implement any required activities identified during each review undertaken with the Borrower and the Association in accordance with Part B of Schedule 5 of the Development Credit Agreement through its Pre Electrification Unit;

(b) by March 31, 1998, engage consultants as necessary to assist in the preparation and dissemination of a guide for practical implementation of grid-interconnection/integration requirements, and, thereafter, in accordance with a timetable acceptable to the Association, engage consultants as necessary to enhance CEB's capability to facilitate and encourage economically and technically viable renewable energy projects via improved rural electrification coordination, off-grid renewable energy project development training, non-dispatchable power source modeling and planning, and mini and village-hydro project development assistance;

(c) by September 30, 1997, engage consultants as necessary to assist in preparing and developing a demand side management (DSM) Implementation strategy and a Load Research Program to support DSM unit programs and provide copies of the resulting strategy and programs to the Borrower and the Association for review and comment; and

(d) by December 31, 1997, engage consultants as necessary to assist in the preparation and development of a Code of Practice for Energy Efficiency in Commercial Buildings.

6. CEB shall annually update its small power purchase tariff in accordance with the methodology adopted by CEB's Board of Directors in December 1996, using the data sources agreed with the Association.

SCHEDULE 2

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods, works and services shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods, works and services to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

Preference for Domestically Manufactured Goods and Domestic Contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent and works estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$25,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for Parts B and C of the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to the Engineer, Procure and Construct Contract under Part B of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions 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 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

