

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF051248 CE

GEF Project Agreement

(Renewable Energy for Rural Economic Development Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

and

DFCC BANK

Dated July 12, 2002

GEF TRUST FUND GRANT NUMBER TF051248 CE

PROJECT AGREEMENT

AGREEMENT dated July 12, 2002, between the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank), acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF, and DFCC BANK.

WHEREAS (A) by the Development Credit Agreement of even date herewith (the Development Credit Agreement) between Democratic Socialist Republic of Sri Lanka (in its capacity as a party to the Development Credit Agreement, the Borrower) and the International Development Association (the Association), the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifty-nine million three hundred thousand Special Drawing Rights (SDR 59,300,000) to assist financing of the Project described in Schedule 2 to the Development Credit Agreement, on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that DFCC Bank agree to undertake such obligations toward the Association as are set forth in the IDA Project Agreement;

(B) by the Global Environment Facility Trust Fund Grant Agreement (the Grant Agreement) of even date herewith between the Bank and the Democratic Socialist Republic of Sri Lanka (in its capacity as a party to the Grant Agreement, the Recipient), the Bank has agreed to make a grant (the GEF Trust Fund Grant) to the Recipient in amount equal to six million four hundred thousand Special Drawing Rights (SDR 6,400,000) to assist in financing the Project on the terms and conditions set forth in the Grant Agreement, but only on conditions that DFCC Bank agree to undertake such obligations toward the Bank as are set forth in this Agreement; and

WHEREAS DFCC Bank, in consideration of the Bank's entering into the Grant Agreement with the Recipient, 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 Grant Agreement, the Preamble to this 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) DFCC Bank 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, renewable energy, energy efficiency and energy conservation 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 Bank shall otherwise agree, DFCC Bank shall carry out the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement, and, where applicable, the provisions of Schedule 2 (Recipient's Project Obligations) and Schedule 3 (Investment Projects) of the Grant Agreement.

Section 2.02. Except as the Bank 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 GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to the IDA Project Agreement.

Section 2.03. DFCC Bank shall, or shall cause an Investment Enterprise or a Participating Credit Institution (as the case may be) to, 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 GEF Project Agreement.

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

Section 2.05. (a) Until a completion report referred to in Section 9.06 (c) of the General Conditions has been furnished to the Association, DFCC Bank shall, at the request of the Bank exchange views with the Bank with regard to the progress of the Project, the performance of its obligations under this Agreement and the Administration Agreement, and other matters relating to the purposes of the GEF Trust Fund Grant.

(b) DFCC Bank shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the GEF Trust Fund Grant, or the performance by DFCC Bank of its obligations under this Agreement and under the Administration Agreement.

ARTICLE III

Management and Operations of DFCC Bank and the Administrative Unit

Section 3.01. DFCC Bank shall carry on its operations and conduct its affairs, and those of the Administrative Unit, in accordance with sound administrative, financial and commercial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. DFCC Bank shall take out and maintain with responsible insurers, or make other provision satisfactory to 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) DFCC Bank shall maintain, until completion of the Project, a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) DFCC Bank shall:
- (i) have its records and project accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and report of such audit, by said auditors, of such scope and in such detail as the Bank, as the case may be, shall have reasonably requested; and
 - (iii) furnish to the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Bank may, from time to time, reasonably request.

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 Grant Agreement becomes effective.

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

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

(b) If the Grant Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Bank shall promptly notify DFCC Bank 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, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	202-4776391

For DFCC Bank:

General Manager
DFCC Bank
73/5 Galle Road
Colombo 3
Sri Lanka

Facsimile:
94-1-440-376

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 DFCC Bank, or by DFCC Bank or the Administrative Unit on behalf of the Recipient under the Grant Agreement, may be taken or executed by the General Manager of DFCC Bank, or such other person or persons as the General Manager shall designate in writing, and DFCC Bank shall furnish to the Bank 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 Colombo, Sri Lanka, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By /s/ Peter Harrold

Country Director, Sri Lanka

DFCC BANK

By /s/ A.N. Fonseka

Authorized Representative

SCHEDULE 1

Implementation Program Project Implementation and Administration

1. DFCC Bank shall: (i) at all times implement the Project in accordance with the Grant Agreement, the Project Implementation Plan, the Administration Agreement and the Operating Guidelines; (ii) promptly inform the Bank of any changes made, or proposed to be made, to the Operating Guidelines or the Project Implementation Plan; and (iii) consult with the Bank prior to introducing any material changes to the Operating Guidelines or the Project Implementation Plan.
 2. (a) Until a completion report referred to in Section 9.06 (c) of the General Conditions has been furnished to the Bank, DFCC Bank shall maintain the Administrative Unit with staffing, organization and functions satisfactory to the Bank.

(b) DFCC Bank shall provide the Administrative Unit with adequate resources and support to carry out its functions under the Project.
 3. DFCC Bank shall appoint, by no later than November 30, 2002, and maintain, until completion of the Project, a project auditor with terms of reference, qualifications and experience satisfactory to the Bank.
 4. DFCC Bank shall establish and operate by not later than March 31, 2003, and maintain throughout the Project implementation period, a computerized financial management system for the Project, satisfactory to the Bank.
 5. Without any limitation or restriction upon the provisions of Section 9.01 and 9.07 of the General Conditions, DFCC Bank shall furnish or cause to be furnished to the Bank, within forty-five days of the end of each quarter, a report, in form and substance satisfactory to the Bank, on the progress of the Project and each Investment Project during such quarter.
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