

CONFORMED COPY

CREDIT NUMBER 1933 CE

Project Agreement

(Distribution and Transmission Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CEYLON ELECTRICITY BOARD

Dated August 31, 1988

CREDIT NUMBER 1933 CE

PROJECT AGREEMENT

AGREEMENT, dated August 31, 1988, 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 twenty-nine million two hundred thousand Special Drawing Rights (SDR 29,200,000), 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 subsidiary loan agreements to be entered into between the Borrower and the Board, the proceeds of the credit provided for under the Development Credit Agreement will be made available to the Board on the terms and conditions set forth in said Subsidiary Loan

Agreements; 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, 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) 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 Agreements. 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 Agreements 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 Agreements, 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 Agreements.

ARTICLE III

Management and Operation 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 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 8%.

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 radio gram 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:

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

For the Board:

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

Cable address:

KILOWATTS
Colombo

Telex:

21368 KILOWATTS 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/ A. Karaosmanoglu
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

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).

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

Contracts for the construction of buildings, building equipment and materials, and erection works under Part A of the Project up to an aggregate amount not exceeding the equivalent of \$3,800,000, may be awarded in accordance with competitive bidding 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 subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

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 carry out a program satisfactory to the Association to retrain those staff of local authority distribution systems transferred to the Board.

2. The Board shall commence by December 31, 1988 the implementation of a program satisfactory to the Association for the development of a decentralized computerized billing system, and upgrading of its management information system.

3. The Board shall take all measures necessary to ensure that on and after December 31, 1988, total dues for electricity supplied by the Board shall not exceed three months' billing.

4. 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.

5. The Board shall by October 31, 1989 complete a tariff and load management study, under terms of reference satisfactory to the Association. The Board shall review the results of said study with the Association, and if necessary, thereafter modify the Board's tariffs taking into account the agreed recommendations of said study.

