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CREDIT NUMBER 3673-1-CE

Project Agreement

(Additional Financing for Renewable Energy for Rural Economic
Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

DFCC BANK

Dated January 9, 2008

PROJECT AGREEMENT

AGREEMENT dated January 9, 2008, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and DFCC BANK (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement (“Additional Financing Agreement”) of same date between the DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (“Recipient”) and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I – GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II – PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III – TERMINATION

- 3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV – REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity’s Representative is the General Manager of the DFCC Bank.

4.02. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. The Project Implementing Entity's Address is:

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

E-mail:	Telephone:	Facsimile:
info@dfccbank.com	+94 11 2442442	+94 11 2440376

AGREED at Colombo, Sri Lanka, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Naoko Ishii
Authorized Representative

DFCC BANK

By

/s/ A. Nihal Fonseka
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall: (i) at all times implement the Project in accordance with the Financing Agreement, the Project Implementation Plan, the Project Administration Agreement-Additional Financing and the Operating Guidelines; (ii) promptly inform the Association of any changes made, or proposed to be made, to the Operating Guidelines or the Project Implementation Plan; and (iii) consult with the Association prior to introducing any material changes to the Operating Guidelines or the Project Implementation Plan.
2.
 - (a) Until the report referred to in Section 4.08(c) of the General Conditions has been furnished to the Association, the Project Implementing Entity shall maintain the Administrative Unit with staffing, organization and functions satisfactory to the Association.
 - (b) The Project Implementing Entity shall provide the Administrative Unit with adequate resources and support to carry out its functions under the Project.
3. The Project Implementing Entity shall maintain, until the completion of this Project and for the carrying out of auditing functions under the Project, a project auditor, with terms of reference, qualifications and experience satisfactory to the Association.

B. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Investment projects

1. Participating Credit Institutions shall make Sub-loans to Investment Enterprises in accordance with the criteria and any procedures agreed with and acceptable to the Association.
2. Any such Sub-loan shall be made under a Sub-financing Agreement on terms and conditions acceptable to the Association, which shall include the following:

- (a) The Sub-loan shall be:
 - (i) denominated and repayable in Sri Lanka Rupees (LKR);
 - (ii) charged interest on the principal amount withdrawn and outstanding from time to time at the rate to be determined by the Participating Credit Institution and the Investment Enterprise; and
 - (iii) repayable over a period not exceeding ten (10) years from the date of the Sub-financing Agreement, inclusive of a grace period not exceeding two (2) years.

- (b) The Project Implementing Entity shall cause each Participating Credit Institution to obtain rights adequate to protect interests of the Project Implementing Entity and those of the Recipient and the Association, including the right to:
 - (i) suspend or terminate the right of the Investment Enterprise to use the proceeds of the Sub-loan, or obtain a refund of all or any part of the amount of the Sub-loan then withdrawn, upon the Investment Enterprise's failure to perform any of its obligations under the Sub-financing Agreement; and
 - (ii) require each Investment Enterprise to:
 - (A) carry out its Investment project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient;
 - (B) provide, promptly as needed, the resources required for the purpose;
 - (C) procure the goods, works and services to be financed out of the Sub-loan in accordance with the provisions of this Agreement;
 - (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-loan and the achievement of its objectives;

- (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Investment project; and (2) at the Recipient's or the Association's or the Project Implementing Entity's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient, the Association and the Project Implementing Entity;
 - (F) enable the Recipient, the Association and the Project Implementing Entity to inspect the Investment Project, its operation and any relevant records and documents; and
 - (G) prepare and furnish to the Recipient, the Association and the Project Implementing Entity all such information as the Recipient or the Association or the Project Implementing Entity shall reasonably request relating to the foregoing.
3. The Project Implementing Entity shall cause each Participating Credit Institution to exercise its rights under its Sub-financing Agreement in such manner as to protect the interests of the Recipient, the Association and the Project Implementing Entity and to accomplish the purposes of the Financing. Except as the Recipient and the Association shall otherwise agree, a Participating Credit Institution shall not assign, amend, abrogate or waive any Sub-financing Agreement or any of its provisions.

D. Safeguards

The Project Implementing Entity shall carry out the Project in accordance with the provisions of the Environmental and Social Assessment Framework.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in subparagraph (b) of this paragraph. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Recipient and the Association not later forty-five (45) days after the end of the period covered by such report.
- (b) The indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) a measurable increase in the income of households with access to safe and adequate supply of electricity;
 - (ii) the sustainability of renewable energy enterprises administered by business entities in the Recipient;
 - (iii) the generation of additional capacity of fifty (50) Mega Watts of grid-connected electricity power; and
 - (iv) the supply of safe and adequate electricity through the use of off-grid systems to an additional 60,000 households, including 500 rural small and medium enterprises and public institutions.
2. The Project Implementing Entity shall provide to the Recipient not later than six (6) months after the Closing Date, for incorporation in the report referred to in Section 4.08(c) of the General Conditions, all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project, including the operations, resources and expenditures related to the Project.
2. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association, as part of the

Project Report, not later than forty-five (45) days after the end of each one (1) calendar quarter, interim unaudited financial statements for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Project Implementing Entity shall have financial statements pertaining to the Project audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Investment projects and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and in the provisions of this Section, including the provisions of the Project Implementation Plan.
2. **Consultants' Services.** All consultants' services required for the Investment projects and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and in the provisions of this Section, including the provisions of the Project Implementation Plan.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraphs 2 and 3 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding, subject to the following additional procedures:
 - (i) The Project Implementation Plan shall specify the circumstances under which such procurement method may be used.
 - (ii) Standard bidding documents and procedures approved by the Association shall be used.

2. **Procurement Using Accepted Commercial Practices.**

- (a) Civil works required for an Investment Project financed under a sub-loan estimated to cost the equivalent of \$3,000,000 or less per contract, may be procured on the basis of established commercial practices acceptable to the Association.
- (b) Goods required for an Investment Project financed under a sub-loan estimated to cost the equivalent of \$2,000,000 or less per contract, may be procured on the basis of established commercial practices acceptable to the Association.
- (c) Turn-key contracts required for an Investment Project financed under a sub-loan estimated to cost the equivalent of \$5,000,000 or less per contract, may be procured on the basis of established commercial practices acceptable to the Association.

3. **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 to be procured under International Competitive Bidding procedures, the proposed plan for such procurement shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Procurement Guidelines. Procurement of all goods and works shall be undertaken in accordance with such Project Implementation Plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to the following:

- (i) contracts for goods estimated to cost the equivalent of \$2,000,000 or more;
- (ii) contracts for works estimated to cost the equivalent of \$3,000,000 or more; and
- (iii) turnkey contracts estimated to cost the equivalent of \$5,000,000 or more.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Project Implementation Plan shall specify the circumstances under which such methods may be used.

Procurement Method	
(a)	Quality Based Selection
(b)	Selection Based on Consultants' Qualifications
(c)	Single Source Selection
(d)	Individual Consultants

3. **Review by the Association of the Selection of Consultants**

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

- (a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

- (b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.