
GRANT NUMBER 0486-SRI(EF)

GRANT AGREEMENT
(Externally Financed)

(Supporting Electricity Supply Reliability Improvement Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 19 DECEMBER 2016

SRI 49216

**GRANT AGREEMENT
(Externally Financed)**

GRANT AGREEMENT dated 19 December 2016 between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a Loan Agreement between the Ceylon Electricity Board ("CEB") and ADB ("Loan Agreement") and a Guarantee Agreement between the Recipient and ADB, ADB has agreed to provide a loan to CEB in the amount of one hundred fifteen million Dollars (\$115,000,000) for the purposes of the project as described in Schedule 1 to the Loan Agreement;

(B) by a Grant Agreement between the Recipient and ADB ("JFPR Grant Agreement"), ADB has agreed to make available a grant to the Recipient from the Japan Fund for Poverty Reduction and administered by ADB in the amount of two million Dollars (\$2,000,000) for the purposes of the project described in Schedule 1 to the JFPR Grant Agreement;

(C) the Recipient has applied to the Clean Energy Fund of the Clean Energy Financing Partnership Facility ("CEF") for a grant to be administered by ADB for the purposes of the Project described in Schedule 1 to this Grant Agreement;

(D) the Project will be carried out by the Lanka Electricity Company Limited ("LECO") and for this purpose, the Recipient shall make available to LECO the proceeds of the grant provided herein upon terms and conditions satisfactory to ADB; and

(E) ADB has agreed to make the proceeds of the grant from CEF available to the Recipient upon the terms and conditions set forth herein and the Project Agreement between ADB and LECO;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Externally Financed Grant Regulations of ADB, dated 8 April 2009 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

- (a) Section 2.01(13) is deleted and the following is substituted therefor: "Project Agreement" means the Project Agreement between ADB and LECO; and

- (b) The term "Project Executing Agency" shall be substituted by LECO.

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations and the Loan Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Grant Agreement have the following meanings:

(a) "Consulting Guidelines" means the "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(b) "Consulting Services" means the services to be financed out of the proceeds of the Grant in support of the activities described in paragraph 1 of Schedule 1 to this Grant Agreement; and

(c) "LECO" means the Lanka Electricity Company Limited of registered address at E. H. Cooray Building, No. 411, Galle Road, Colombo 03, Sri Lanka or any successor thereto acceptable to ADB.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient a grant from the Clean Energy Fund of the Clean Energy Financing Partnership Facility in the amount of one million eight hundred thousand Dollars (\$1,800,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall make the proceeds of the Grant available to LECO upon terms and conditions satisfactory to ADB and shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement and the Project Agreement.

Section 3.02. The proceeds of the Grant shall be allocated and withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Except as ADB may otherwise agree, the Recipient shall procure, or cause to be procured, the items of expenditure to be financed out of the proceeds of the Grant in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.04. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 March 2022 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement and the Project Agreement.

Section 4.02. ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

Section 4.03. The Recipient shall enable ADB's representatives to inspect the Project, the Goods and Works, and any relevant records and documents.

Section 4.04. The Recipient acknowledges and agrees that this Grant Agreement is entered into by ADB, not in its individual capacity, but as grant administrator for CEF. Accordingly, the Recipient agrees that (a) it may only withdraw Grant proceeds to the extent that ADB has received proceeds for the Grant from CEF; and (b) that ADB does not assume any obligations or responsibilities of the Clean Energy Fund of CEF in respect of the Project or the Grant other than those set out in this Grant Agreement.

ARTICLE V

Suspension

Section 5.01. The following are specified as additional events for suspension of the right of the Recipient to make withdrawals from the Grant Account for purposes of Section 8.01(k) of the Grant Regulations:

- (a) CEB shall have failed to perform one or more of its obligations under the Loan Agreement; and
- (b) the Recipient shall have failed to perform one or more of its obligations under the JFPR Grant Agreement.

ARTICLE VI**Effectiveness**

Section 6.01. The following are additional conditions to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations:

- (a) the execution and delivery of the Loan Agreement on behalf of CEB shall have been duly authorized or ratified by all necessary action and all conditions precedent to its effectiveness (other than a condition requiring effectiveness of this Grant Agreement) shall have been fulfilled; and
- (b) the execution and delivery of the JFPR Grant Agreement on behalf of the Recipient shall have been duly authorized or ratified by all necessary action and all conditions precedent to its effectiveness (other than a condition requiring effectiveness of this Grant Agreement) shall have been fulfilled.

Section 6.02. The following are specified as additional matters, for the purposes of Section 9.02(c) of the Grant Regulations, to be included in the opinion or opinions furnished to ADB:

- (a) that the Loan Agreement has been duly authorized or ratified by, executed and delivered on behalf of CEB, and is legally binding upon CEB in accordance with its terms; and
- (b) that the JFPR Grant Agreement has been duly authorized or ratified by, executed and delivered on behalf of the Recipient, and is legally binding upon the Recipient in accordance with its terms.

Section 6.03. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of this Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VII**Miscellaneous**

Section 7.01. Each of the Secretary, Ministry of Finance; Deputy Secretary to the Treasury; and Director General, External Resources Department of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

The Secretary
Ministry of Finance
Colombo, Sri Lanka

cc: Deputy Secretary to the Treasury
Director General, External Resources Department

Facsimile Number:

(94 11) 248 4563
(94 11) 244 7633

For ADB

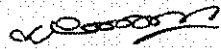
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

(632) 636-2444
(632) 636-2338

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By 

R.H.S. SAMARATUNGA
Secretary
Ministry of Finance

ASIAN DEVELOPMENT BANK

By 

SRI WIDOWATI
Country Director
Sri Lanka Resident Mission

SCHEDULE 1**Description of the Project**

1. The Project shall support the establishment of hybrid renewable energy systems through the construction of a renewable energy micro-grid system in the Western Province of the Recipient (as also described in subparagraph 2(a) of Schedule 1 to the Loan Agreement).
2. The Project is expected to be completed by 30 September 2021.

SCHEDULE 2**Allocation and Withdrawal of Grant Proceeds**General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Grant and the allocation of the Grant proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category or Subcategory of the Table.)

Basis for Withdrawal from the Grant Account

2. Except as ADB may otherwise agree, the proceeds of the Grant shall be disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and
- (b) if the amount of the Grant allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

TABLE

ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Supporting Electricity Supply Reliability Improvement Project)			
Number	Item	Total Amount Allocated for CEF Financing (\$) Category	Basis for Withdrawal from the Grant Account
1	Works (Turnkey Contracts)	1,500,000	100% of total expenditure claimed*
2	Consulting Services	300,000	100% of total expenditure claimed*
	Total	1,800,000	

* Exclusive of taxes and duties imposed within the territory of the Recipient.

SCHEDULE 3

Procurement of Works and Consulting Services

General

1. The procurement of Works and Consulting Services shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Works

3. Except as ADB may otherwise agree, Works shall only be procured on the basis of the methods of procurement set forth below:
 - (a) International Competitive Bidding; and
 - (b) National Competitive Bidding.
4. The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

National Competitive Bidding

5. The Recipient and ADB shall ensure that, prior to the commencement of any procurement activity under national competitive bidding, the Recipient's national competitive bidding procedures are consistent with the Procurement Guidelines. Any modifications or clarifications to such procedures agreed between the Recipient and ADB shall be set out in the Procurement Plan. Any subsequent change to the agreed modifications and clarifications shall become effective only after approval of such change by the Recipient and ADB.

Conditions for Award of Contract

6. The Recipient shall cause LECO not to award any Works contract which involves environmental impacts until:
 - (a) LECO has obtained the final approval of the IEE; and
 - (b) LECO has incorporated the relevant provisions from the EMP into the Works contract.
7. The Recipient shall cause LECO not to award any Works contract which involves involuntary resettlement impacts, until LECO has prepared and submitted to ADB the final RP based on the Project's detailed design, and obtained ADB's clearance of such RP.

Consulting Services

8. Except as ADB may otherwise agree, the Recipient shall cause LECO to apply quality- and cost-based selection for selecting and engaging Consulting Services.
9. The Recipient shall cause LECO to recruit the individual consultants for Consulting Services in accordance with procedures acceptable to ADB for recruiting individual consultants.

Industrial or Intellectual Property Rights

10. (a) The Recipient shall ensure that all Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.
- (b) The Recipient shall ensure that all contracts for the procurement of Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.
11. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 4**Execution of Project; Financial Matters**Implementation Arrangements

1. The Recipient and LECO shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by CEB, the Recipient and ADB. In the event of any discrepancy between the PAM and this Grant Agreement and the Project Agreement, the provisions of this Grant Agreement and the Project Agreement shall prevail.

Environment

2. The Recipient shall ensure, or cause LECO to ensure, that the preparation, design, construction, implementation, operation and decommissioning of the Project comply with (a) all applicable laws and regulations of the Recipient relating to environment, health and safety; (b) the Environmental Safeguards; and (c) all measures and requirements set forth in the IEE, the EMP and any corrective or preventive actions set forth in a Safeguards Monitoring Report.

Land Acquisition and Involuntary Resettlement

3. The Recipient shall ensure, or cause LECO to ensure, that all land and all rights-of-way required for the Project are made available to the Works contractor in accordance with the schedule agreed under the related Works contract and all land acquisition and resettlement activities are implemented in compliance with (a) all applicable laws and regulations of the Recipient relating to land acquisition and involuntary resettlement; (b) the Involuntary Resettlement Safeguards; and (c) all measures and requirements set forth in the RP, and any corrective or preventative actions set forth in the Safeguards Monitoring Report.

4. Without limiting the application of the Involuntary Resettlement Safeguards or the RP, the Recipient shall ensure, or cause LECO to ensure, that no physical or economic displacement takes place in connection with the Project until:

- (a) compensation and other entitlements have been provided to affected people in accordance with the RP; and
- (b) a comprehensive income and livelihood restoration program has been established in accordance with the RP.

Indigenous Peoples

5. The Recipient shall ensure, or cause LECO to ensure, that the Project does not impact indigenous peoples within the meaning of the SPS. If due to unforeseen circumstances, the Project impacts indigenous peoples, the Recipient shall, or cause LECO to, take all steps necessary or desirable to ensure that the Project complies with all

applicable laws and regulations of the Recipient relating to indigenous peoples and with the SPS.

Human and Financial Resources to Implement Safeguards Requirements

6. The Recipient shall, or cause LECO to, make available necessary budgetary and human resources to fully implement the EMP and the RP.

Safeguards – Related Provisions in Bidding Documents and Works Contracts

7. The Recipient shall ensure, or cause LECO to ensure, that all bidding documents and contracts for Works contain provisions that require contractors to:

- (a) comply with the measures relevant to the contractor set forth in the IEE, the EMP and the RP (to the extent they concern impacts on affected people during construction), and any corrective or preventative actions set forth in a Safeguards Monitoring Report;
- (b) make available a budget for all such environmental and social measures;
- (c) provide the Recipient with a written notice of any unanticipated environmental, resettlement or indigenous peoples risks or impacts that arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP and the RP;
- (d) adequately record the condition of roads, agricultural land and other infrastructure prior to starting to transport materials and construction; and
- (e) reinstate pathways, other local infrastructure, and agricultural land to at least their pre-project condition upon the completion of construction.

Safeguards Monitoring and Reporting

8. The Recipient shall, or cause LECO to, do the following:

- (a) submit semi-annual Safeguards Monitoring Reports to ADB and disclose relevant information from such reports to affected persons promptly upon submission;
- (b) if any unanticipated environmental and/or social risks and impacts arise during construction, implementation or operation of the Project that were not considered in the IEE, the EMP or the RP, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
- (c) report any actual or potential breach of compliance with the measures and requirements set forth in the EMP or the RP after becoming aware of the breach.

Prohibited List of Investments

9. The Recipient shall ensure, or cause LECO to ensure, that no proceeds of the Loan are used to finance any activity included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Labor Standards, Health and Safety

10. The Recipient shall ensure, or cause LECO to ensure, that the core labor standards and the Recipient's applicable labor laws and regulations are complied with during Project implementation. The Recipient shall include specific provisions in the bidding documents and contracts financed by ADB under the Project requiring that the contractors: (a) comply with the Recipient's applicable labor law and regulations and incorporate applicable workplace occupational safety norms; (b) do not use child labor or forced labor; (c) give equal pay for equal work regardless of gender, ethnicity or caste; and (d) disseminate information on the risks of sexually transmitted diseases, including HIV/AIDS, to the employees of contractors engaged under the Project and to members of the local communities surrounding the Project area.

Gender and Development

11. The Recipient shall cause LECO to ensure that (a) the Gender Action Plan is implemented in accordance with its terms; (b) the bidding documents and contracts include relevant provisions for contractors to comply with the measures set forth in the Gender Action Plan; (c) adequate resources are allocated for implementation of the Gender Action Plan; (d) progress on implementation of the Gender Action Plan, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB; and (e) key gender outcome and output targets include, but not limited to (i) 20% of "women-headed" household participation in micro, small and medium sized enterprise development training; (ii) 900 of end-user participation in safe and efficient electricity use workshop; and (iii) 600 persons participation in skill training for employment and livelihood opportunities.

Counterpart Support

12. The Recipient shall, or cause LECO to, make available all counterpart funds required for the timely and effective implementation of the Project. In addition to the foregoing, the Recipient shall ensure that it has sufficient funds to satisfy its liabilities arising from any Works, Goods and/or Consulting Services contract.

Sector Performance Covenant

13. The Recipient shall cause its Ministry of Power and Renewable Energy to issue a policy directive to the Public Utilities Commission of Sri Lanka to recognize: (a) capital investments made towards micro-grids as approved capital expenditures; and (b) recurrent operational and maintenance expenses of the micro-grids as approved operational expenditures, for the calculation of a licensee's "allowed revenue" for the purpose of ensuring the viability of micro-grids developed and maintained by distribution licenses.

Governance and Anticorruption

15. The Recipient and LECO shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

16. The Recipient and LECO shall ensure that the anticorruption provisions acceptable to ADB are included in all bidding documents and contracts, including provisions specifying the right of ADB to audit and examine the records and accounts of the executing and implementing agencies and all contractors, suppliers, consultants, and other service providers as they relate to the Project.