

FRAMEWORK FINANCING AGREEMENT
(Green Power Development and Energy Efficiency Improvement Investment Program)

Parties This Framework Financing Agreement (“FFA”) dated 19 May 2014 is between Democratic Socialist Republic of Sri Lanka (“Sri Lanka”) and Asian Development Bank (“ADB”).

MFF Investment Program Sri Lanka is committed to and will implement the Green Power Development and Energy Efficiency Improvement Investment Program (“Investment Program”), which is an integral part of the Sri Lanka’s energy sector investment program (“Energy Sector Program”), specified in 10-Year Development Framework prepared in 2006¹ and updated in 2010.² Both the Energy Sector Program and Investment Program are described in Schedule 1 hereto.

The total cost of the Investment Program, over the period of 2014 to 2020 is expected to be US\$440.00 million equivalent out of the total US\$4,800 million Energy Sector Program for the same period.

Multitranche Financing Facility The Multitranche Financing Facility (the Facility) is intended to finance components under the Investment Program, provided that such components comply with the criteria set out in Schedule 4 hereto and that understandings set out in this FFA are complied with.

These may include:

1. Construction of the Moragolla Hydropower Plant
2. Transmission Infrastructure Development and Distribution Network Efficiency Improvement
3. Energy Efficiency Pilots
4. Project Management and Capacity Building

This FFA does not constitute a legal obligation on the part of ADB to commit any financing. At its sole discretion, exercised reasonably, ADB has the right to deny any financing request made by Sri Lanka, cancel the uncommitted portion of the Facility, and withdraw Sri Lanka’s right to request any financing tranche under the Facility. Financing tranches may be made available by ADB provided matters continue to be in accordance with the general understandings and expectations on which the Facility is based and which are laid out in this FFA.

¹ Government of Sri Lanka. 2006. *Mahinda Chintana: Vision for a New Sri Lanka*. Colombo.

² Government of Sri Lanka. 2010. *Mahinda Chintana: Vision for the Future*. Colombo.

This FFA does not constitute a legal obligation on the part of Sri Lanka to request any financing. Sri Lanka has the right not to request any financing under the Facility. Sri Lanka also has the right at any time to cancel any uncommitted portion of the Facility.

Sri Lanka and ADB may exercise their respective rights to cancel the Facility or any uncommitted portion thereof, and ADB may exercise its right to refuse a financing request, by giving written notice to such effect to the other parties. The written notice will provide an explanation for the cancellation or refusal and, in the case of a cancellation, specify the date on which the cancellation takes effect. With the prior notice to the Borrower, ADB may cancel the facility or reject a financing request when there is a material noncompliance with ADB policies or FFA undertakings; or there are undue delays in the submission of the financing requests or the implementation of the Investment Program.

Financing Plan

The financing plan for the Investment Program is summarized below.

Financing Source	Total (\$)	Share (%) of Total
Asian Development Bank		
Ordinary capital resources loan	216.00	49.09
Special Funds resources loan	84.00	19.09
Sub Total	300.00	68.18
Co-financing		
Loan	60.00	13.64
Sub Total	60.00	13.64
Sri Lanka	80.00	18.18
Sub Total	80.00	18.18
Total Investment Program	440.00	100.00

Financing Terms

ADB will provide loans and administer cofinancing to finance components under the Investment Program, as and when the latter are ready for financing, provided, Sri Lanka is in compliance with the understandings hereunder, and the components are in line with those same understandings. Each loan and administered cofinancing will constitute a tranche.

Each tranche may be financed under terms different from the financing terms of previous or subsequent tranches. The choice of financing terms will depend on the project, capital market conditions, and ADB's financing policies, all prevailing on the date of signing the legal agreement for such tranche.

Tranches may be provided in sequence or simultaneously, and some may overlap in time with each other.

There is no maximum or minimum size for a tranche.

Commitment charges or guarantee fees are not payable on the Facility. They are payable only on financing actually committed by ADB as a loan or guarantee. ADB rules on commitment charges and guarantee fees, which are in effect when the legal agreements are signed for a tranche, will apply with respect to such tranche.

Amount

The maximum financing amount available under the Facility is Three hundred sixty million United States Dollars (US\$360,000,000). It will be provided in individual tranches from ADB's Ordinary Capital Resources (OCR) and Special Funds Resources (ADF) in the following manner:

OCR Loans:³ US\$216 million

ADF Loans:⁴ US\$84 million

Cofinancing: US\$60 million

Availability Period

The last date on which any disbursement under any tranche may be made will be 31 March 2021. The last financing tranche is expected to be executed no later than 30 September 2020.

Terms and Conditions

Sri Lanka will cause the proceeds of each tranche to be applied to the financing of expenditures of the Investment Program, in accordance with conditions set forth in this FFA and the legal agreements for each tranche.⁵

Execution

The Executing Agency will be the Ministry of Power and Energy (MOPE). The Executing Agency will implement the Investment Program in accordance with the principles set forth in Schedule 1 to this Agreement, and as supplemented in the legal agreements for each tranche.

³ Provisions of the Ordinary Operations Loan Regulations applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Ordinary Operations Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

⁴ Provisions of the Special Operations Loan Regulations applicable to Loans Made by ADB from its Special Funds Resources, dated 1 January 2006, would apply to each Loan, subject, to modifications, if any, that may be included under any Loan Agreement (said Special Funds Loan Regulations as so modified, if any, being hereinafter called the Loan Regulations).

⁵ The project eligibility and approval criteria are set out in Schedule 4 to this Agreement.

Periodic Financing Requests Sri Lanka may request, and ADB may agree, to provide loans and administer cofinancing under the Facility to finance the Investment Program and its related projects upon the submission of a Periodic Financing Request (PFR). Each PFR should be submitted by Sri Lanka. Sri Lanka will make available through MOPE to Ceylon Electricity Board (CEB), the proceeds of the tranche in accordance with the related PFR, and the legal agreements for the tranche. Each individual tranche will be for an amount of no less than one hundred eighty million United States Dollars (US\$180,000,000), or its equivalent. ADB will review the PFRs and, if found satisfactory, prepare the related legal agreements.

The components for which financing is requested under the PFR will be subject to the selection criteria set out in Schedule 4 hereto, satisfactory due diligence, and preparation of relevant safeguard and fiduciary frameworks and other documents. The Facility will be implemented in accordance with the general framework set out in Schedule 3 to this FFA, and the Facility Administration Manual agreed between Sri Lanka and ADB.

Until notice is otherwise given by Sri Lanka, the Secretary Ministry of Finance and Planning will be Sri Lanka's authorized representative for purposes of executing PFRs.

General Implementation Framework The Facility will be implemented in accordance with the general framework set out in Schedule 3 hereto.

Procedures Tranches to be provided under the Facility will be subject to following procedures and undertakings:

- (a) Sri Lanka will have notified ADB of a forthcoming PFR in advance of the submission of the PFR.
- (b) Sri Lanka will have submitted a PFR in the format agreed with ADB.
- (c) ADB may, in its sole discretion, decline to authorize the negotiation and execution of any legal agreement for a tranche.
- (d) If ADB confirms acceptance of the PFR, the legal agreements will be negotiated and executed by the parties.

PFR information The PFR will substantially be in the form attached hereto, and will contain the following details:

- (i) Loan and cofinancing amounts;
- (ii) Description of the components to be financed;
- (iii) Cost estimates and financing plan;

- (iv) Implementation arrangements specific to the components;
- (v) Confirmation of the continuing validity of and adherence to the understanding in this Agreement;
- (vi) Confirmation of compliance with the provisions under previous Loan Agreement(s) and Project Agreement(s), as appropriate; and
- (vii) Other information as may be required under the Facility Administration Manual, or reasonably requested by ADB.

Safeguards

Attached as Schedule 5 are references to the Safeguard Frameworks that will be complied with during the implementation of the Facility.

ADB's Safeguard Policies in effect as of the date of signing of legal agreements for a tranche will be applied with respect to the components financed under such financing tranche.⁶

Procurement

All goods and services to be financed under the Facility will be procured in accordance with ADB's *Procurement Guidelines* (2013, as amended from time to time).

Consulting Services

All consulting services to be financed under the Facility will be procured in accordance with ADB's *Guidelines on the Use of Consultants* (2013, as amended from time to time).

**Advance contracting;
Retroactive financing**

Under each tranche, ADB may, subject to its policies and procedures, allow on request (a) advance contracting of projects' components, and (b) retroactive financing of eligible expenditures for up to 20% of proposed individual loans, incurred prior to loan effectiveness but not earlier than 12 months before the date of signing of the related legal agreement. Sri Lanka acknowledges that any approval of advance contracting and/or retroactive financing will not constitute a commitment by ADB to finance the related project.

Disbursements

Disbursements will be made in accordance with ADB's *Loan Disbursement Handbook* (2012, as amended from time to time).

**Monitoring,
Evaluation, and
Reporting
Arrangements**

A steering committee chaired by the secretary of MOPE will provide guidance to CEB, the implementing agency, and review progress and results. CEB maintains a project website that will be updated regularly and will include (i) bidding procedures, bidders, and contract awards; (ii) use of the funds disbursed under the Investment Program; and (iii) physical progress. Project implementation units (PIUs) will be set up in CEB. PIUs' monitoring will include daily planning, implementation, feedback and progress reporting. The PIUs of CEB will provide ADB with (i) quarterly

⁶ ADB. 2009. *Safeguard Policy Statement*. Manila.

progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for the next 12 months; and (iii) a project completion report within 6 months of physical completion of each tranche under the MFF. Schedule 2 hereto sets as the Design and Monitoring Framework for the Facility, against which the implementation effectiveness will be evaluated.

Undertakings Attached as Schedule 6 are the undertakings provided by Sri Lanka.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

ASIAN DEVELOPMENT BANK

By: Democratic Socialist Republic
of Sri Lanka

By: Asian Development Bank

Dr. Batagoda Mudiyansele Suren Batagoda
Deputy Secretary to the Treasury
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SCHEDULE 1

MFF CONSTITUENTS

A. Policy Framework and Roadmap

1. In recent years, Sri Lanka has improved its energy sector and achieved a national electrification ratio of 94% (2012) compared with 29% in 1990.⁷ However, a longer-term challenge is to reduce its high dependence on expensive fossil fuel energy. The energy sector struggles to (a) meet growing demand for electricity at a low cost and acceptable reliability rates, and (b) attain long term sustainability. The share of thermal oil-fired energy in the power generation mix has increased from 6% in 1995 to 59% in 2012 that creates a high energy cost base. Demand growth has been mostly met by expensive oil-fired thermal plants. This is not a viable and sustainable solution to the country's energy security and environment protection in the long term. Diversification of the generation mix primarily to renewable energy sources, improved network efficiency, and supply and demand side management is the best way to correct this situation. Another challenge is to improve system reliability and cut technical losses. The transmission network needs expansion and modernization, particularly in the former conflict-affected areas in Northern and Eastern provinces.⁸ The 33 kilovolt (kV) medium voltage (MV) network needs to expand power supply into rural areas where many households have poor reliability and inadequate quality of electricity supply. To ensure sustainable functioning of the power sector, the government is also pursuing financial, managerial, and institutional reforms in line with the Sri Lanka Electricity Act, 2009.

2. Sri Lanka has a national investment program that is based on 10-Year Development Framework prepared in 2006⁹ and updated in 2010.¹⁰ The framework includes a long-term energy sector investment program and sector roadmap, and appropriate policy and reform measures that are linked to a National Energy Policy and Strategies.¹¹ The objective is to (i) increase power supply capacity to about 6,400 MW by 2020 and reduce the generation cost by adding aggregate base load capacity of about 2,000 MW from three coal-fired plants; (ii) increase the share in grid energy supply from nonconventional¹² renewable energy sources to 20% by 2020; and (iii) reduce the total losses in the network to 10.0% by 2020. The government's intention to develop 2000 MW of coal-fired capacity aims to pursue cost recovery in expectation that with the introduction of low-cost coal-fired generation it will be possible to reduce the current high cost of thermal power generation and achieve cost recovery from 2017. Development of coal-fired capacity is complimentary to the development of renewable energy to achieve energy security. As part of its cost recovery strategy, the government increased retail electricity tariffs by 35% on average in April 2013. While the government aims to increase supply capacity and replace expensive and inefficient oil-fired power plants by constructing the coal-fired plants, the remaining supply capacity will need to come from renewable sources (and conversion of the oil-fired plants to gas-fired plants in the future). The 20% increase in power generation from non-conventional renewable sources will be in addition to 28% (2012) of the conventional hydropower and will ensure that a substantial portion of electricity is generated by

⁷ Ceylon Electricity Board. 2012. *Ceylon Electricity Board's Statistical Digest Report*. Colombo.

⁸ The 2012 electrification rate in the Northern Province is estimated at 80%. The 2012 electrification rate in the Eastern Province is 79.8%.

⁹ Government of Sri Lanka. 2006. *Mahinda Chintana: Vision for a New Sri Lanka*. Colombo.

¹⁰ Government of Sri Lanka. 2010. *Mahinda Chintana: Vision for the Future*. Colombo.

¹¹ Government of Sri Lanka, 2008. *National Energy Policy and Strategies of Sri Lanka*. Colombo.

¹² Nonconventional renewable energy sources include mini hydropower (below 10 MW capacity), wind, solar, and biomass.

domestic clean energy sources in the future. This will address the critical question about the energy security agenda.

B. Strategic Context

3. The MFF will finance a slice of the government's energy sector investment program estimated at \$4,800 million for the period of 2014-2020. It will focus on the green power development portion of the government's energy sector investment program and help to encourage and facilitate private sector investment in renewable power generation through improving the transmission infrastructure. The MFF will support development of hydropower generation and the proposed 200 MW wind power park in the Northern Province by financing relevant power evacuation transmission infrastructure.¹³ The MFF will also help to keep an essential dialogue going with the government regarding further pursuing power sector reforms in coordination with other interested parties and development partners. The MFF is consistent with the Asian Development Bank (ADB) country partnership strategy for Sri Lanka.¹⁴ In line with the Sri Lanka Country Partnership Strategy for the energy sector, the MFF addresses the issues of power generation cost and sustainability in the following areas: (i) diversifying energy sources by increasing the share of renewable energy supply, including wind, hydro, and solar; (ii) strengthening transmission infrastructure to absorb additional capacity from renewable energy sources, and expanding access in post-conflict areas and lagging regions; and (iii) improving network efficiency through technical loss reduction. The MFF has strong grounds on previous ADB interventions focused on renewable energy development.¹⁵

C. Investment Program

4. The government has requested ADB's support for the development of renewable energy, particularly hydropower and wind power generation, and energy and network efficiency projects through the MFF to expand transmission and MV infrastructure to improve efficiency, enable power evacuation from and manage integration of renewable energy in the power system. The required preconditions for the use of the MFF—a road map and strategy, a policy framework, investment and financing plans, and reliable safeguard arrangements—are in place. The MFF is the most appropriate financing modality for a long-term partnership in these activities, given the phased nature of investments in electricity generation and the need for flexibility in project design and implementation. It also ensures continuity in combining investments in physical and nonphysical aspects of renewable energy and energy efficiency development.

5. The impact of the investment program will be increased access to clean and reliable power supply. The outcome will be enhanced clean power generation, system efficiency and reliability.

¹³ It is expected that the first two wind parks of 100 MW each will be established in 2017 and 2020, respectively, in the Mannar area of the Northern Province that will follow by further wind power development in the future.

¹⁴ ADB. 2011. *Country Partnership Strategy: Sri Lanka, 2012–2016*. Manila.

¹⁵ ADB financed strengthening transmission infrastructure for hydropower evacuation from the Central Province to load centers under the Clean Energy and Access Improvement Project (2009) and Sustainable Power Sector Support Project (2011). ADB's Clean Energy and Network Efficiency Improvement Project (2012) funds transmission infrastructure in the Northern Province that will be used for evacuation of wind power from the proposed site at Mannar district. Under TA7837-SRI (Clean Energy and Network Efficiency Improvement), ADB supports actual wind measurements and wind resource assessment at the proposed 200 MW wind park site at Mannar. A system stability study and a master plan along with a business model of the proposed wind park are currently under finalization with support of TA8167-SRI: Capacity Building for Clean Power Development.

6. The outputs of the investment program are:
- (i) **Hydropower generation developed.** This includes construction of a 30 MW, run-of-river hydropower plant at Moragolla in the Central Province,¹⁶ including a 0.5 km, 132 kV associated transmission infrastructure to connect the station to the grid, which will increase clean and low cost base load power generation.
 - (ii) **Transmission infrastructure enhanced.** This comprises construction and augmentation of 220/132 kV, 220/132/33 kV, and 132/33 kV grid substations and associated facilities in Eastern, Northern, North Central, North Western, and Western provinces that will absorb increase in power demand and ensure system's stable operation with addition of intermittent wind and solar generation.
 - (iii) **Efficiency of medium voltage network improved.** This includes construction of 33 kV lines and reactive power management through installation of switched capacitor banks in the MV network to address overloading of conductors, voltage drop in MV lines and poor power factor in Eastern and North Western provinces.
 - (iv) **Demand-side management (DSM) for energy efficiency improved.** This includes implementation of pilot DSM subprojects in Colombo through (a) use of smart grid and metering technologies, (b) retrofitting buildings with smart energy saving technology, and (c) installing cold thermal storage in selected buildings to achieve energy savings.
 - (v) **Capacity development support provided.** The physical investments will be reinforced through financing nonphysical capacity development components including: (a) institutional capacity building for power sector development, system operation and dispatching, and energy efficiency improvement, (b) project management including implementation supervision and preparation of new projects for the second tranche.

D. Financing Plan

7. The investment program's financing plan is provided in the following table:

Table 1: Financing Plan
(\$ million)

Source	Project 1	Project 2	Project 1 and 2	Share of Total (%)
Asian Development Bank				
OCR loan	121.00	95.00	216.00	49.09
ADF loan	29.00	55.00	84.00	19.09
Subtotal	150.00	150.00	300.00	68.18
Co-financing				
AFD loan ^a	30.00	30.00	60.00	13.64
Government	40.00	40.00	80.00	18.18
Total	220.00	220.00	440.00	100.00

ADF = Asian Development Fund, AFD = Agence Francaise de Developpement, OCR = ordinary capital resources.

^a AFD confirmed that it will co-finance Project 1 and expressed interest in co-financing Project 2 subject to their Management decision at the later stage.

Source: Asian Development Bank estimates.

¹⁶ The detailed engineering design of the hydropower plant was completed under ADB's Sustainable Power Sector Support Project (ADB. 2011. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Sustainable Power Sector Support Project*. Manila).

SCHEDULE 2

DESIGN AND MONITORING FRAMEWORK FOR THE FACILITY

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Impact Increased access to clean and reliable power supply</p>	<p>System supply capacity increased from 3,312 MW in 2012 to 6,367 MW by 2020</p> <p>Electrification rate increased from 94% in 2012 to 100% access to all by 2016</p> <p>In-grid energy supply from nonconventional renewable energy sources increased from 6.4% in 2012 to 10.0% by 2016 and 20.0% by 2020</p>	<p>CEB annual report (power sector statistics)</p> <p>Progress reports on 10-year development framework</p>	<p>Assumptions The government remains committed to power sector reforms and development of renewable energy sources</p> <p>Adoption of a conducive regulatory environment for private sector involvement in developing renewable energy</p> <p>Risk Increase in fuel oil costs, reliance on expensive thermal electricity generation, and tariffs set below supply cost will impact CEB operation and financial capacity</p> <p>Unfavorable changes in global financial and economic environment will adversely affect the domestic economy</p>
<p>Outcome Enhanced clean power generation, system efficiency and reliability</p>	<p>The total losses of the CEB network reduced from 10.67% of net generation in 2012 to 10.0% by 2020</p> <p>Transmission infrastructure for connecting 200 MW of wind power to the grid completed by December 2018</p> <p>97.7 GWh clean hydropower generation per year, resulting in annual avoided 72,272 tons of carbon dioxide emissions, added to the system by June 2019</p> <p>Distribution line end voltage fluctuation maintained within 5% in project areas by December 2018 (baseline: 10% in 2013)</p>	<p>CEB annual report (power sector statistics)</p> <p>Progress reports on 10-year development framework</p> <p>CEB monthly system reports</p>	<p>Assumptions Least-cost generation expansion plan, including generation from renewable sources, implemented as scheduled</p> <p>The government to continue to fund grid extension and strengthening</p> <p>Risk Integration of intermittent wind generation may create potential difficulties in managing grid.</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Hydropower generation developed in the Central Province</p> <p>2. Transmission infrastructure enhanced</p> <p>3. Efficiency of medium voltage network improved</p> <p>4. Demand-side management for energy efficiency improved</p>	<p>30 MW of run-of-river hydropower plant constructed by June 2019</p> <p>0.5 km of dedicated 132 kV transmission line constructed to connect the hydropower plant to the grid by June 2019</p> <p>210 MVA 220/132 kV and 816.5 MVA 132/33 kV grid substation capacity added by June 2020</p> <p>12.3 km upgraded and 175 km of new 132 kV, and 151 km of new 220 kV transmission lines added by June 2020</p> <p>2x63 MVA, 220/132/33 kV grid substation capacity and 30 km 220 kV transmission line constructed by December 2018 to enable connection of future wind generation in the Northern Province</p> <p>235.4 km of new 33 kV lines added to improve power supply quality to about 300,000 customers by June 2020</p> <p>75 MVAR installed in 33 kV network for reactive power management by June 2020</p> <p>Energy savings of 1,700 MWh/year from pilot subproject implementation by June 2019</p> <p>DSM regulations approved and announced by 1 January 2016</p>	<p>CEB annual report (power sector statistics)</p> <p>Government budget</p> <p>Government gazette</p> <p>CEB annual report (power sector statistics)</p> <p>Project progress reports by CEB</p> <p>CEB monthly reporting</p> <p>Project progress reports by CEB</p> <p>CEB annual report (power sector statistics)</p> <p>CEB monthly reporting</p> <p>Project progress reports by CEB</p> <p>CEB annual report (power sector statistics)</p> <p>CEB monthly reporting</p> <p>PUCSL and CEB reports</p>	<p>Assumption</p> <p>Implementation capacity of CEB remains sufficient to handle multiple projects</p> <p>Risks</p> <p>Unexpected increase in prices of commodities and raw materials, and construction delays</p> <p>Reduced water flow during the dry season in the Mahaweli river</p>

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
5. Capacity development support provided	Support in review of transmission design specifications and standards, and application of new technologies provided by 2016 New subprojects prepared for the second tranche by June 2016 Project monitoring and supervision guidelines approved and in place by December 2015.	PUCSL and CEB reports Project progress reports by CEB	
Activities with Milestones 1. Hydropower generation developed 1.1. Land acquisition completed by January 2015. 1.2. Construction of Moragolla 30 MW run-of-river hydropower plant by June 2019 1.3. Construction of 132 kV transmission line to connect Moragolla hydropower plant to the grid by June 2019 2. Transmission infrastructure enhanced 2.1. Land acquisition completed by January 2015. 2.2. Construction/augmentation of 220/132 kV and 132/33 kV grid substations in critical locations and associated transmission lines by June 2019 2.3. Construction of 2x63 MVA, 220/132/33 kV grid substation and 30 km 220 kV transmission line in Mannar district of the Northern Province by December 2018 3. Efficiency of medium voltage network improved 3.1. Land acquisition completed by January 2015. 3.2. Construction of new 33 kV lines and gantries by June 2020 3.3. Installation of reactive power devices by June 2020 4. Demand-side management for energy efficiency improved 4.1. DSM pilot projects undertaken by June 2019 4.2. DSM regulations approved and announced by 1 January 2016 5. Capacity development support provided 5.1. New subprojects finalized for the second tranche by June 2016 5.2. Project supervision capabilities enhanced by December 2015		Inputs Loans in two tranches ADB: \$300 million Government: \$80.00 million Cofinancing (AFD): \$60.00 million	

ADB = Asian Development Bank, AFD = Agence Francaise Developpement, CEB = Ceylon Electricity Board, GWh = gigawatt-hour, km = kilometer, kV = kilovolt, MVA = megavolt-ampere, MVAr = megavolt-ampere reactive, MW = megawatt, OCR = ordinary capital resources, PUCSL = Public Utilities Commission of Sri Lanka.
 Sources: Ceylon Electricity Board. 2012. *CEB Statistical Digest Report*. Colombo; Government of Sri Lanka. 2010. *Mahinda Chintana: Vision for the Future*. Colombo; Ceylon Electricity Board and Asian Development Bank estimates.

SCHEDULE 3

IMPLEMENTATION FRAMEWORK

1. The executing agency will be the Ministry of Power and Energy (MOPE). Ceylon Electricity Board (CEB) will be the implementing agency. A steering committee chaired by the secretary of MOPE will guide the implementing agency and review progress and results.
2. Project implementation units (PIUs) will be set up in CEB. Full-time managers will supervise each project component under the MFF. They will be supported by experienced staff appointed by CEB to undertake day-to-day activities. The PIUs will oversee procurement, disbursement, financial management and accounting, quality assurance, and social and environmental issues. The PIUs will coordinate closely with the procurement committee, appointed by the Cabinet or MOPE, depending on the size of the contracts.
3. The government has asked ADB to approve advance contracting for procurement of goods and civil works, including preparation of bidding documents, and inviting and receiving bids for project contracts, and retroactive financing under the MFF. The retroactive financing will be allowed for up to 20% of the individual loan amount for expenditures incurred 12 months prior to loan signing. The government has been advised that ADB's approval of advance contracting and retroactive financing in principle does not commit ADB to finance any part of the MFF.
4. The implementation arrangements are summarized in Table and are described in detail in the facility administration manual.

Table: Implementation Arrangements

Aspects	Arrangements		
Implementation period	01 October 2014 – 30 September 2020 (for the MFF) 01 October 2014 – 30 September 2019 (for Project 1)		
Estimated project completion date	30 September 2020 (for MFF), 30 September 2019 (for Project 1)		
Management			
(i) Oversight body	Steering committee consisting the secretary, Ministry of Power and Energy (chair), and representatives of the Ministry of Finance and Planning, Ministry of Power and Energy, Public Utilities Commission, Ceylon Electricity Board, and Sustainable Energy Authority (members)		
(ii) Executing agency	Ministry of Power and Energy		
(iii) Key implementing agencies	Ceylon Electricity Board		
(iv) Project implementation units	Established in Ceylon Electricity Board		
Procurement (Project 1)	International competitive bidding	4 procurement packages	\$ 167.69 million
Consulting services	QCBS	3 consulting contracts	\$12.31 million
Retroactive financing and/or advance contracting	Advance contracting, including preparation of bidding documents, inviting and receiving bids for contracts, and retroactive financing of up to 20% of the individual loan amount for expenditures incurred 12 months prior to loan signing.		
Disbursement	The loan and grant proceeds will be disbursed in accordance with the Asian Development Bank's <i>Loan Disbursement Handbook</i> (2012, as amended from time to time) and detailed arrangements agreed upon between the government and Asian Development Bank.		

MFF = multitranches financing facility; QCBS = quality and cost based selection.

Source: Asian Development Bank estimates.

SCHEDULE 4

SELECTION CRITERIA AND APPROVAL PROCESS FOR COMPONENTS OF PROJECTS

Selection Criteria

The criteria for financing components of projects include the following:

1. The feasibility studies for subprojects should be complete. Where feasible, the detailed design work should have also been completed, and all necessary governmental and regulatory approvals should have been obtained.
2. The sequencing of the generation developments and transmission system enhancements under the Investment Program should be technically feasible and execution arrangements should be satisfactory.
3. The proposed subprojects should be financially and economically viable and based on analysis of least cost choices.
4. The proposed subprojects must meet environmental selection criteria in accordance with the environmental assessment and review framework (EARF), be environmentally sound, should conform to ADB's safeguard policies¹⁷ and must also comply with all Sri Lankan social and environmental legislation and regulatory requirements.
5. The proposed components/subprojects to be undertaken must be within the overall framework of the understandings set out in Schedule 5.

Approval Procedures

1. The required technical, economic, financial, social and safeguard due diligence must be satisfactorily completed and approved by all relevant authorities, including ADB.
2. CEB can undertake financing of only those subprojects that comply with the requirements of ADB's Safeguard Policy Statement (2009). CEB shall engage consultants for the purposes of preparing subprojects under Project 2 (Tranche 2) in accordance with ADB's requirements.
3. The proposed components/subprojects must have received relevant clearances and approvals from appropriate national authorities, particularly with regard to environmental and social safeguards, before submission to ADB for review and approval.
4. Necessary budget allocations must be provided.

¹⁷ ADB. 2009. *Safeguard Policy Statement*. Manila.

SCHEDULE 5

SOCIAL DIMENSIONS AND SAFEGUARD REQUIREMENTS

1. Sri Lanka will ensure that all the requirements prescribed in this Schedule and the following environmental, social and safeguard frameworks and plans that have been prepared with respect to the Facility and the first tranche and of which ADB has been provided full copies, and which are deemed incorporated herein by reference, are complied with during the processing and implementation of the components under the Facility:

- (i) Environmental assessment and review framework (EARF);
- (ii) Resettlement framework (RF);
- (iii) Indigenous peoples planning framework (IPPF);
- (iv) Initial environmental examinations (IEEs)/Environmental management plan (EMP) and Resettlement plans (RP) for the first tranche; and
- (v) Environment impact assessment (EIA), Environmental Addendum and EMP for the Moragolla hydropower plant.

2. The frameworks cover the Facility-specific information and requirements in accordance with ADB's safeguard policies: (i) the general anticipated impacts of the components or projects likely to be financed under the MFF on the environment, involuntary resettlement, and indigenous peoples; (ii) the safeguard criteria that are to be used in selecting components, projects; (iii) the requirements and procedure that will be followed for screening and categorization, impact assessments, development of management plans, public consultation and information disclosure (including the 120-day disclosure rule, if required), and monitoring and reporting; (iv) the institutional arrangements (including budget and capacity requirements) and the client's and ADB's responsibilities and authorities for the preparation, review and clearance of safeguard documents; and (v) specified monitoring and reporting requirements for each subproject that will be updated quarterly.

3. Prior to the preparation of each PFR, the applicability and relevance of each safeguard framework for environmental assessment, involuntary resettlement, and indigenous people will be reviewed by CEB and updated to ensure relevance and consistency with applicable country legal frameworks and ADB's safeguard policies, as amended from time to time.

4. In all cases, for each new PFR preparation, the government of Sri Lanka and CEB will review ongoing subprojects to check on the status of compliance with the environment and social safeguard plans and frameworks, and safeguards monitoring reports submitted to ADB for review, together with other required safeguard documents relevant to each subproject included in the tranche being processed. In any case, if major non-compliance is discovered in the course of the review of ongoing projects, a corrective action plan will be prepared and submitted to ADB.

SCHEDULE 6

UNDERTAKINGS

Sri Lanka undertakes as follows:

A. Compliance with ADB's policies

1. **Governance and Anticorruption.** Sri Lanka acknowledges that ADB, consistent with its commitment to good governance, accountability, and transparency, reserves the right to investigate directly, or through its agents, any possible corrupt, fraudulent, collusive, or coercive practices relating to the Investment Program. To support these efforts, Sri Lanka will ensure that CEB includes in the bidding documents and in all contracts financed by ADB in connection with the Investment Program: (a) provisions specifying the right of ADB to audit and examine the records and accounts of CEB and all contractors, suppliers, and other service providers as they relate to the Investment Program; (b) periodic inspections of the contractors' activities related to fund withdrawals and settlements are carried out by the PIUs; and (c) the auditors engaged by CEB have the right to conduct random or spot audits of contract implementation activities under the sub-projects.

2. **Health and Labor.** Sri Lanka will ensure that civil and electrical work contracts under the Investment Program will follow all applicable labor laws and regulations, and that contractors (a) employ, to the extent possible, women and local people, including disadvantaged people, living in the vicinity of the relevant project components; (b) provide equal pay to men and women for work of equal type; (c) provide safe working conditions for male and female workers; (d) do not employ child labor; and (e) carry out HIV/AIDS awareness programs for laborers and disseminate information at worksites on risks of sexually transmitted diseases and HIV/AIDS for construction workers; and that the above will be monitored to ensure compliance by the contractors.

3. **Environmental Safeguards.** CEB will prepare a suitable national Environmental Impact Assessment (EIA) to address the impacts and risks to the environment and population from the proposed Mannar wind power generation parks. The EIA will be informed by ornithological survey and assess the cumulative impacts of the proposed wind parks including collision risk modelling for relevant birds species based on vantage point surveys. CEB will obtain all necessary national clearances and permits prior to commencement of work in the proposed Wind Power Development Zone (an associated facility of the relevant transmission infrastructure) in the Mannar area. CEB will conduct meaningful consultations with the Department of Wildlife Conservation, Central Environmental Authority, ornithological experts and non-government organizations, and the local community regarding the proposed wind power generation parks and how potentially significant effects can be mitigated. CEB will implement suitable mitigation measures at the associated facility that are required to fulfill the critical habitat and other appropriate requirements of ADB's Safeguard Policy Statement, 2009. CEB will ensure that wind turbines are constructed and operated in accordance with mitigation measures set out in the national EIA and EMP consistent with relevant requirements of ADB's Safeguard Policy Statement, 2009.

B. Sector Specific Undertakings

4. **Operation and Maintenance.** Sri Lanka will ensure that the works carried out under this Investment Program are supervised adequately to ensure that (a) the quality of materials

supplied is of the highest standards established by CEB in their construction manuals; (b) the best engineering practices are used by the contractors, and (c) adequate safeguard and supervision is conducted by the PIUs on the work performed by the contractors to enforce the required standards and quality of work.

5. Sri Lanka will ensure that all projects financed under the Facility are developed, implemented and maintained in accordance with the safeguards requirements set out in Schedule 5 to this FFA and safeguards documents referenced therein.

6. Sri Lanka will ensure that works under the Investment Program are conducted according to all applicable national safety regulations and standards.

7. **Policy Framework and Dialogue.** Sri Lanka undertakes that in accordance with the Electricity Act of 2009, it will ensure further progress on the financial separation of the functionally unbundled licensed business units of CEB with a relevant Board decision be taken by December 2014. The practice of auditing separate accounts by the Auditor General of Sri Lanka needs to be continued, and they should be made publicly available in the Annual Reports of each licensed business unit. Sri Lanka will monitor and enforce implementation of the key regulatory requirements to enable the full implementation of the electricity Tariff Methodology including the requirements stated in Section 12 of the Tariff Decision of the Public Utilities Commission of Sri Lanka (PUCSL) dated 20 June 2013.

8. Sri Lanka will ensure that the implementation schedule of the Grid Code and Distribution Code shall be prepared and approved by PUCSL by December 2014 and the Codes shall be fully implemented in line with the approved schedule. Sri Lanka will ensure that the Supply Services Code is fully operational by 1 January 2015.

9. Sri Lanka will ensure that the CEB Transmission Licensee establishes and makes fully operational the Bulk Supply Transactions Account (BSTA), to facilitate on-time invoicing and financial payments by Licensees, and operationalize all associated Power Purchase Agreements (PPAs), Power Sale Agreements (PSAs) or similar instruments. The CEB Transmission Licensee shall publish the transactions of the BSTA as stipulated in the Tariff Methodology dated December 2011, at least on a monthly and continuous basis, commencing not later than 1 January 2015.

10. Sri Lanka agrees that all new generation should be subject to operationalizing Power Purchase Agreements in accordance with requirements of Section 43 of the Sri Lanka Electricity Act of 2009.

11. **Tariffs.** Sri Lanka will ensure that, in consultation with CEB Licensees, PUCSL will prepare and approve a roadmap to achieve cost reflective tariffs by January 2017. Sri Lanka will ensure (a) that each CEB Licensee operates on full cost recovery basis with matching electricity tariff revenues; and (b) timely provision of subsidies as agreed by the government at the time of establishing the tariffs by PUCSL and as provided for in the Electricity Act, 2009.

12. **Public-Private Initiatives.** Sri Lanka will ensure that investors for each block of the Wind Parks in the Mannar Wind Development Zone will be selected on the basis of a competitive bidding through an open process. A PPA or a similar instrument will be executed between each selected party and the CEB Transmission Licensee in line with Section 43 of the Sri Lanka Electricity Act of 2009. Any blocks for investment by CEB will be developed by a legally constituted subsidiary company of CEB with a PPA or Power Transmission Agreement

(PTA) of the structure and pricing substantially similar to a PPA between a competitively selected party and the CEB Transmission Licensee, and that ADB will be notified as and when each such PPA of either type is executed.

13. Sri Lanka will ensure that, prior to commencement of work in the proposed Wind Power Development Zone in Mannar, (a) all necessary regulatory approvals for the Wind Power Development Zone have been obtained, and (b) stakeholder consultations are conducted in relation to (i) the proposed arrangements for the lease of land for the wind turbine foot prints; (ii) proposed fees for land through which access will be provided for wind turbine locations; and (iii) the proposed overall approach for inclusive growth and equitable distribution of benefits of wind power development in Mannar.

14. **Demand-side Management.** Sri Lanka will ensure that MOPE approves the Demand-side Management (DSM) regulations and that these regulations come into full force and effect by 1 January 2016.

15. Sri Lanka will ensure that the CEB Transmission Licensee and CEB Distribution Licensee will prepare a supply-side investment plan which will include a reactive power management and optimization study and submit this plan to PUCSL by 30 June 2015 to enable CEB and PUCSL to jointly draft amendments to the Tariff Methodology.