

No. 5978

**INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT
and
CEYLON**

Loan Agreement—Norton Bridge Hydro and Second Grandpass Thermal Power Project (with annexed Loan Regulations No. 3). Signed at Washington, on 6 June 1961

Official text: English.

Registered by the International Bank for Reconstruction and Development on 28 November 1961.

**BANQUE INTERNATIONALE
POUR LA RECONSTRUCTION ET LE DÉVELOPPEMENT
et
CEYLAN**

Contrat d'emprunt — *Projet de construction d'une centrale hydraulique à Norton Bridge et d'une deuxième centrale thermique à Grandpass (avec, en annexe, le Règlement n° 3 sur les emprunts). Signé à Washington, le 6 juin 1961*

Texte officiel anglais.

Enregistré par la Banque internationale pour la reconstruction et le développement le 28 novembre 1961.

No. 5978. LOAN AGREEMENT¹ (*NORTON BRIDGE HYDRO AND SECOND GRANDPASS THERMAL POWER PROJECT*) BETWEEN THE GOVERNMENT OF CEYLON AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT. SIGNED AT WASHINGTON, ON 6 JUNE 1961

AGREEMENT, dated June 6, 1961 between GOVERNMENT OF CEYLON (hereinafter called the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (hereinafter called the Bank).

WHEREAS by a Loan Agreement dated July 9, 1954,² between the Borrower and the Bank (hereinafter called the First Loan Agreement), and by a Loan Agreement dated September 17, 1958,³ between the Borrower and the Bank (hereinafter called the Second Loan Agreement), the Bank made two loans to the Borrower for the purpose of financing the foreign exchange costs of projects forming part of an electric power scheme in Ceylon ;

WHEREAS the Borrower has requested the Bank to assist in financing a further part of such scheme ; and

WHEREAS the Borrower intends to cause to be established a Ceylon Electricity Board (hereinafter called the Board) which will exercise and perform functions relating to the development and co-ordination of the generation, distribution and supply of electricity ;

NOW THEREFORE, the parties hereto agree as follows :

Article I

LOAN REGULATIONS ; SPECIAL DEFINITIONS

Section 1.01. The parties to this Loan Agreement accept all the provisions of Loan Regulations No. 3 of the Bank dated February 15, 1961,⁴ subject however, to the modifications thereof set forth in this Agreement (said Loan Regulations No. 3

¹ Came into force on 29 September 1961, upon notification by the Bank to the Government of Ceylon.

² United Nations, *Treaty Series*, Vol. 198, p. 313.

³ United Nations, *Treaty Series*, Vol. 323, p. 51.

⁴ See p. 368 of this volume.

as so modified being hereinafter called the Loan Regulations) with the same force and effect as if they were fully set forth herein.

Section 1.02. For the purposes of this Agreement, wherever the context so permits, the term "Borrower" shall be deemed to include Ceylon.

Article II

THE LOAN

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions in this Agreement set forth or referred to, an amount in various currencies equivalent to fifteen million dollars (\$15,000,000).

Section 2.02. The Bank shall open a Loan Account on its books in the name of the Borrower and shall credit to such Account the amount of the Loan. The amount of the Loan may be withdrawn from the Loan Account as provided in, and subject to the rights of cancellation and suspension set forth in, the Loan Regulations; provided, however, that before the first withdrawal shall be made from the Loan Account, the Borrower shall furnish to the Bank a certificate of a competent authority that the debt limitation provided in the Ceylon Development Loans Act, No. 6 of 1954, as amended, has not been exceeded.

Section 2.03. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent ($\frac{3}{4}$ of 1%) per annum on the principal amount of the Loan not so withdrawn from time to time.

Section 2.04. The Borrower shall pay interest at the rate of five and three-fourths per cent ($5\frac{3}{4}$ %) per annum on the principal amount of the Loan so withdrawn and outstanding from time to time.

Section 2.05. Except as the Borrower and the Bank shall otherwise agree, the charge payable for special commitments entered into by the Bank at the request of the Borrower pursuant to Section 4.02 of the Loan Regulations shall be at the rate of one-half of one per cent ($\frac{1}{2}$ of 1 %) per annum on the principal amount of any such special commitments outstanding from time to time.

Section 2.06. Interest and other charges shall be payable semi-annually on May 15 and November 15 in each year.

Section 2.07. The Borrower shall repay the principal of the Loan in accordance with the amortization schedule set forth in Schedule 1¹ to this Agreement.

¹ See p. 364 of this volume.

Article III

USE OF PROCEEDS OF THE LOAN

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied exclusively to financing the cost of goods required to carry out the Project described in Schedule 2¹ to this Agreement. The specific goods to be financed out of the proceeds of the Loan and the methods and procedures for procurement of such goods shall be determined by agreement between the Borrower and the Bank, subject to modification by further agreement between them.

Section 3.02. The Borrower shall cause all goods financed out of the proceeds of the Loan to be used in the territories of the Borrower exclusively in the carrying out of the Project.

Article IV

BONDS

Section 4.01. The Borrower shall execute and deliver Bonds representing the principal amount of the Loan as provided in the Loan Regulations.

Section 4.02. The Governor-General of the Island of Ceylon and such person or persons as he shall appoint in writing are designated as authorized representatives of the Borrower for the purposes of Section 6.12 of the Loan Regulations.

Article V

PARTICULAR COVENANTS

Section 5.01. (a) The Borrower shall cause the Project to be carried out and its electricity undertakings to be managed and operated with due diligence and efficiency in conformity with sound engineering and financial practices and in accordance with sound public utility and business practices.

(b) Except as shall be otherwise agreed between the Borrower and the Bank in respect of any part of the Project, the Borrower shall employ or cause to be employed qualified and competent engineering consultants and contractors for the carrying out of the Project ; the terms of reference of such consultants shall be determined in consultation with the Bank.

(c) The Borrower shall cause to be furnished to the Bank, promptly upon their preparation, the plans and specifications for the Project and any material modifica-

¹ See p. 366 of this volume.

tions subsequently made therein, in such details as the Bank shall from time to time request.

(d) The Borrower shall maintain or cause to be maintained records adequate to identify the goods financed out of the proceeds of the Loan, to disclose the use thereof in the Project, and to record the progress of the Project (including the cost thereof) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the agency responsible for the construction or operation of the Project or any part thereof ; shall enable the Bank's representatives to inspect the Project, the goods, the properties, equipment and operations of the agency or Board responsible for the construction or operation of the Project, or any part thereof, and any relevant records and documents ; and shall furnish the Bank or cause the Bank to be furnished all such information as the Bank shall reasonably request concerning the expenditure of the proceeds of the Loan, the Project, the goods and the operations and financial condition of the agency responsible for the construction or operation of the Project or any part thereof.

Section 5.02. (a) The Borrower and the Bank shall cooperate fully to assure that the purposes of the Loan will be accomplished. To that end, each of them shall furnish to the other all such information as it shall reasonably request with regard to the general status of the Loan. On the part of the Borrower, such information shall include information with respect to financial and economic conditions in the territories of the Borrower and the international balance of payments position of the Borrower.

(b) The Borrower and the Bank shall from time to time exchange views through their representatives with regard to matters relating to the purposes of the Loan and the maintenance of the service thereof. The Borrower shall promptly inform the Bank or cause the Bank to be informed of any condition which interferes with, or threatens to interfere with, the accomplishment of the purposes of the Loan or the maintenance of the service thereof.

(c) The Borrower shall afford all reasonable opportunity for accredited representatives of the Bank to visit any part of the territories of the Borrower for purposes related to the Loan.

Section 5.03. It is the mutual intention of the Borrower and the Bank that no other external debt shall enjoy any priority over the Loan by way of a lien on governmental assets. To that end, the Borrower undertakes that, except as the Bank shall otherwise agree, if any lien shall be created on any assets of the Borrower as security for any external debt, such lien will *ipso facto* equally and ratably secure the payment of the principal of, and interest and other charges on, the Loan and the Bonds, and that in the creation of any such lien express provision will be made to that effect ; provided, however, that the foregoing provisions of this Section shall not apply to : (i) any lien created on property, at the time of purchase thereof, solely as security for

the payment of the purchase price of such property ; (ii) any lien on commercial goods to secure a debt maturing not more than one year after the date on which it is originally incurred and to be paid out of the proceeds of sale of such commercial goods ; or (iii) any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than one year after its date.

The term "assets of the Borrower" as used in this Section includes assets of the Borrower or of any of its political subdivisions or of any agency of the Borrower or of any such political subdivision, including assets of the Central Bank of Ceylon, or of any other institution acting as central bank of the Borrower.

Section 5.04. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid without deduction for, and free from, any taxes or fees imposed under the laws of the Borrower or laws in effect in its territories ; provided, however, that the provisions of this Section shall not apply to taxation of, or fees upon, payments under any Bond to a holder thereof other than the Bank when such Bond is beneficially owned by an individual or corporate resident of the Borrower.

Section 5.05. The Loan Agreement and the Bonds shall be free from any taxes or fees that shall be imposed under the laws of the Borrower or laws in effect in its territories on or in connection with the execution, issue, delivery or registration thereof, and the Borrower shall pay all such taxes and fees, if any, imposed under the laws of the country or countries in whose currency the Loan and the Bonds are payable or laws in effect in the territories of such country or countries.

Section 5.06. The principal of, and interest and other charges on, the Loan and the Bonds shall be paid free from all restrictions imposed under the laws of the Borrower or laws in effect in its territories.

Section 5.07. Except as shall be otherwise agreed between the Bank and the Borrower, the Borrower shall insure or cause to be insured with responsible insurers all goods financed with the proceeds of the Loan. Such insurance shall cover such marine, transit and other hazards incident to purchase and importation of the goods into the territories of the Borrower and to delivery thereof to the site of the Project, and shall be for such amounts as shall be consistent with sound commercial practice. Such insurance shall be payable in dollars or in the currency in which the cost of the goods insured thereunder shall be payable.

Section 5.08. The Borrower shall from time to time take all steps necessary or desirable to effect such adjustment in its rates for the supply of electricity as will provide revenues sufficient to cover operating expenses (including adequate maintenance

and renewals, taxes and interest) and repayments on long-term indebtedness ; provided, however, that the rates shall be such that not less than a reasonable return on net investment shall be earned after charging operating expenses and adequate depreciation and taxes other than income taxes.

For the purposes of this section, the term "long-term indebtedness" shall mean any debt maturing by its terms more than one year after the date on which it was originally incurred.

Section 5.09. The Borrower undertakes that it shall :

- (a) Take all steps necessary to insure that the establishment of the Board and the transfer to it of the electricity undertakings now administered by the Borrower's Department of Electrical Undertakings will be on a basis not inconsistent with the performance of obligations under the First Loan Agreement, the Second Loan Agreement or this Agreement ; and
- (b) Whenever there is reasonable cause to believe that the funds available to the Board will be inadequate to meet the estimated expenditures required for carrying out the Project, promptly provide the Board or cause the Board to be provided with such funds as are needed to meet such expenditures on such terms and conditions as shall enable the Board to maintain its financial position in accordance with sound business and public utility practices.

Article VI

REMEDIES OF THE BANK

Section 6.01. (i) If any event specified in paragraph (a) or paragraph (b) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of thirty days or (ii) if any event specified in paragraph (c) of Section 5.02 of the Loan Regulations shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower, then at any subsequent time during the continuance thereof, the Bank, at its option, may declare the principal of the Loan and of all the Bonds then outstanding to be due and payable immediately, and upon any such declaration such principal shall become due and payable immediately, anything in this Agreement or in the Bonds to the contrary notwithstanding.

Article VII

MODIFICATION OF THE SECOND LOAN AGREEMENT

Section 7.01. For the purposes of the Second Loan Agreement paragraphs (b) and (c) of Section 5.02 of Loan Regulations No. 3 of the Bank dated June 15, 1956¹ are hereby amended to read respectively as follows :

¹ United Nations, *Treaty Series*, Vol. 280, p. 302.

“(b) A default shall have occurred in the payment of principal or interest or any other payment required under any other Loan Agreement between the Bank and the Borrower or under any bond delivered pursuant to any such agreement.”

“(c) A default shall have occurred in the performance of any other covenant or agreement on the part of the Borrower under the Loan Agreement or the Bonds, or under the Loan Agreement (Norton Bridge Hydro and Second Grand-pass Thermal Power Project) between the Borrower and the Bank dated June 6, 1961 or the bonds issued thereunder.”

and the term “Loan Regulations” as used for the purposes of the said Second Loan Agreement shall mean Loan Regulations No. 3 of the Bank dated June 15, 1956, as modified by Schedule 3 to said Second Loan Agreement and as further amended hereby.

Article VIII

MISCELLANEOUS

Section 8.01. The Closing Date shall be June 30, 1964.

Section 8.02. A date sixty days after the date of this Agreement is hereby specified for the purposes of Section 9.03 of the Loan Regulations.

Section 8.03. The following addresses are specified for the purposes of Section 8.01 of the Loan Regulations :

For the Borrower :

Ministry of Finance
The Secretariat
Colombo 1, Ceylon

Alternative address for cablegrams and radiograms :

Secfin
Colombo, Ceylon

For the Bank :

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington 25, D. C.
United States of America

Alternative address for cablegrams and radiograms :

Intbafrad
Washington, D. C.

Section 8.04. The Governor-General of the Island of Ceylon is designated for the purposes of Section 8.03 of the Loan Regulations.

IN WITNESS WHEREOF, the parties hereto acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and delivered in the District of Columbia, United States of America, as of the day and year first above written.

By G. E. GOONETILLEKE

Governor-General

Acting in the Name and on Behalf of the Government of Ceylon

International Bank for Reconstruction and Development :

By J. Burke KNAPP

Vice-President

SCHEDULE 1

AMORTIZATION SCHEDULE

<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>	<i>Date Payment Due</i>	<i>Payment of Principal (expressed in dollars)*</i>
November 15, 1964	\$ 220,000	November 15, 1975	\$ 355,000
May 15, 1965	220,000	May 15, 1976	366,000
November 15, 1965	220,000	November 15, 1976	377,000
May 15, 1966	220,000	May 15, 1977	388,000
November 15, 1966	220,000	November 15, 1977	399,000
May 15, 1967	220,000	May 15, 1978	410,000
November 15, 1967	226,000	November 15, 1978	422,000
May 15, 1968	233,000	May 15, 1979	433,000
November 15, 1968	239,000	November 15, 1979	447,000
May 15, 1969	247,000	May 15, 1980	459,000
November 15, 1969	253,000	November 15, 1980	473,000
May 15, 1970	260,000	May 15, 1981	485,000
November 15, 1970	267,000	November 15, 1981	365,000
May 15, 1971	276,000	May 15, 1982	375,000
November 15, 1971	284,000	November 15, 1982	386,000
May 15, 1972	292,000	May 15, 1983	397,000
November 15, 1972	300,000	November 15, 1983	408,000
May 15, 1973	309,000	May 15, 1984	420,000
November 15, 1973	318,000	November 15, 1984	432,000
May 15, 1974	326,000	May 15, 1985	445,000
November 15, 1974	336,000	November 15, 1985	457,000
May 15, 1975	345,000	May 15, 1986	470,000

* To the extent that any part of the Loan is repayable in a currency other than dollars (see Loan Regulations, Section 3.03), the figures in this column represent dollar equivalents determined as for purposes of withdrawal.

PREMIUMS ON PREPAYMENT AND REDEMPTION

The following percentages are specified as the premiums payable on repayment in advance of maturity of any part of the principal amount of the Loan pursuant to Section 2.05 (b) of the Loan Regulations or on the redemption of any Bond prior to its maturity pursuant to Section 6.16 of the Loan Regulations :

<i>Time of Prepayment or Redemption</i>	<i>Premium</i>
Not more than 3 years before maturity	$\frac{1}{2}$ of 1 %
More than 3 years but not more than 6 years before maturity	1 %
More than 6 years but not more than 11 years before maturity	1 $\frac{3}{4}$ %
More than 11 years but not more than 16 years before maturity	2 $\frac{1}{2}$ %
More than 16 years but not more than 21 years before maturity	3 $\frac{1}{2}$ %
More than 21 years but not more than 23 years before maturity	4 $\frac{3}{4}$ %
More than 23 years before maturity	5 $\frac{3}{4}$ %

SCHEDULE 2

DESCRIPTION OF THE PROJECT

The Project consists of a hydro-electric plant, a thermal-generating unit and facilities for transmission and distribution as follows :

1. *Norton Bridge Hydro Plant*

This plant will be located at the upper end of the Norton reservoir ; its main features will consist of :

- (i) a concrete lined intake tunnel approximately 20,000 feet long, designed for a maximum flow of 1,000 cubic feet per second ;
- (ii) a surge chamber and two steel penstocks approximately 2,900 feet long ;
- (iii) a power house equipped with two 25,000 kw generators driven by hydraulic turbines ; and
- (iv) an outdoor substation with two banks of three 10 MVA single phase 11/132 kv transformers.

2. *Second Grandpass Thermal Unit*

- (i) the construction and installation at the Grandpass Power House of a second turbo generating unit of 25,000 kw and a single boiler of the outdoor type designed to produce 250,000 lbs. of steam per hour and equipped with regenerative feed water heating, surface condenser and the necessary auxiliary equipment ;
- (ii) the construction and installation in the existing outdoor substation of a 32 MVA, 11/132 kv 3-phase transformer equipped with the necessary switchgear, control equipment and auxiliaries.

3. *Transmission Lines and Distribution*

- (i) the construction of a 132 kv double circuit line approximately 3 miles long connecting the Norton Bridge power station with the existing Laksapana power station ;
- (ii) the construction of a 132 kv double circuit line approximately 93 miles long between Laksapana and Galle with step-down substation ;
- (iii) the construction of a 132 kv double circuit line approximately 50 miles long between Bolawatta and Puttalam with step-down substation ; and
- (iv) the construction of approximately 200 miles of 33 and 11 kv lines and of about 200 substations including the low voltage customer connections.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

LOAN REGULATIONS No. 3, DATED 15 FEBRUARY 1961

REGULATIONS APPLICABLE TO LOANS MADE BY THE BANK TO MEMBER GOVERNMENTS

[Not published herein. See p. 268 of this volume.]