

CONFORMED COPY

CREDIT NUMBER 1826 LA

(Southern Provinces Electrification Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELECTRICITE DU LAOS

Dated February 1, 1988

PROJECT AGREEMENT

AGREEMENT, dated February 1, 1988 between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ELECTRICITE DU LAOS (EDL).

WHEREAS (A) by the Development Credit Agreement of even date herewith between the Lao People's Democratic Republic (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to nineteen million eight hundred thousand Special Drawing Rights (SDR 19,800,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that EDL agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and EDL, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to EDL on the terms and conditions set forth in said subsidiary loan agreement; and

WHEREAS EDL, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. EDL declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of the Schedule to this Agreement.

Section 2.03. EDL shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of this Agreement.

Section 2.04. EDL shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, EDL shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) EDL shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) EDL shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by EDL of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. In carrying out Part G of the Project, EDL shall:

- (a) by June 30, 1988, employ the consultants;
- (b) by June 30, 1990, furnish to the Association for comments the recommendations of the study; and
- (c) thereafter, prepare and carry out an action plan, the terms and timing of which shall be acceptable to the Association.

ARTICLE III

Management and Operations of EDL

Section 3.01. EDL shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. EDL shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 3.03. EDL shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.04. EDL shall carry out an action program, acceptable to the Association, for the reduction of distribution losses.

Section 3.05. EDL shall carry out an action program, acceptable to the Association, for the reduction of arrears. For the purposes of this Section, the word "arrears" means any payment not made by the due date.

ARTICLE IV

Financial Covenants

Section 4.01. (a) EDL shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) EDL shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than nine months after the end of each such year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

Section 4.02. (a) Except as the Association shall otherwise agree, EDL shall not incur any debt unless a reasonable forecast of the revenues and expenditures of EDL shows that the estimated net revenues of EDL for each fiscal year during the term of the debt to be incurred shall be at least 1.1 times the estimated debt service requirements of EDL in such year on all debt of EDL including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of EDL maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and (B) under a guarantee agreement, on the date the agreement providing for

such guarantee has been entered into.

- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of: (1) all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt; and (2) dividends and major repairs expenditures.
- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vi) The term "reasonable forecast" means a forecast, expressed in dollars, prepared by EDL not earlier than four months prior to the incurrence of the debt in question, which both the Association and EDL accept as reasonable and as to which the Association has notified EDL of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of EDL.

Section 4.03. (a) Except as the Association shall otherwise agree, EDL shall produce, for each of its fiscal years after its fiscal year ending on December 31, 1987 funds from internal sources, equivalent to not less than 20% of the annual average of EDL's capital expenditures incurred, or expected to be incurred, for that year, the previous fiscal year and the next following fiscal year.

(b) Before November 30 in each of its fiscal years, EDL shall, on the basis of forecasts, expressed in dollars, prepared by EDL and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Association a copy of such review upon its completion.

(c) If any such review shows that EDL would not meet the requirements set forth in paragraph (a) for EDL's fiscal years covered by such review, EDL shall promptly take all necessary measures within its power (including, without limitation, seeking and implementing approved adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "funds from internal sources" means the difference between:
 - (A) the sum of revenues from all sources related to operations, net non-operating income and any

reduction in working capital other than cash;
and

- (B) the sum of: (1) all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures; and (2) major repairs expenditures.
- (ii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
 - (iii) The term "working capital other than cash" means the difference between current assets excluding cash and current liabilities at the end of each fiscal year.
 - (iv) The term "current assets excluding cash" means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
 - (v) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called for payment within twelve months, including accounts payable, customer advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.
 - (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
 - (vii) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of EDL thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify EDL of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

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

For EDL:

Electricite du Laos
P. O. Box 309
Vientiane
Lao People's Democratic Republic

Cable address:

DIRELEC
VIENTIANE
Laos

Telex:

4311 EDL VTE LS

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of EDL, may be taken or executed by the General Manager or such other person or persons as EDL shall designate in writing, and EDL shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu
Regional Vice President
Asia

ELECTRICITE DU LAOS

By /s/ K. Simpaseuth
Authorized Representative

SCHEDULE

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in the Lao People's Democratic Republic may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Lao People's Democratic Republic may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

With respect to procurement of items under Category (2)(a) and (b) of Schedule 1 to the Development Credit Agreement:

- (a) Minor equipment, testing instruments and tools costing less than \$100,000 per contract and aggregating no more than \$1,000,000 in total value, may be procured by international shopping procedures in accordance with the provisions of paragraph 3.4 of the Guidelines; and
- (b) Spare parts and tires for existing equipment costing less than \$50,000 per contract and aggregating no more than \$500,000 in total value, may be procured from original suppliers through direct contracting on terms and conditions acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

- (a) With respect to each contract estimated to cost the equivalent of \$400,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines

shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnish to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

- (b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 3 to the Development Credit Agreement.
- (c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (a) (ii) of the Development Credit Agreement.

2. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

In order to assist EDL in carrying out the Project, EDL shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

