

CONFORMED COPY

CREDIT NUMBER 2389 MAU

(Water Supply Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SOCIETE NATIONALE D'EAU ET D'ELECTRICITE

Dated September 18, 1992

CREDIT NUMBER 2389 MAU

PROJECT AGREEMENT

AGREEMENT, dated September 18, 1992, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SOCIETE NATIONALE D'EAU ET D'ELECTRICITE (SONELEC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Islamic Republic of Mauritania (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to seven million seven hundred thousand Special Drawing Rights (SDR 7,700,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that SONELEC agrees to undertake such obligations toward the Association as are set forth in this Agreement;

WHEREAS (B) by a subsidiary loan agreement to be entered into between the Borrower and SONELEC, the proceeds of the credit provided for under the Development Credit Agreement will be relent to SONELEC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS (C) SONELEC, 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 and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. SONELEC 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 other technical 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 Schedule 1 to this Agreement.

Section 2.03. SONELEC 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 the Project Agreement.

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

Section 2.05. (a) SONELEC shall participate fully in the annual review referred to in Schedule 3 of the Development Credit Agreement and, to this end, shall (i) furnish to the Borrower and the Association such reports as may be required for that purpose, and in such detail as the Borrower or the Association shall reasonably request, on the progress and status of the Project, and (ii) following each such review, act promptly and diligently, in order to take, or assist the Borrower in taking, any corrective action deemed necessary to remedy any shortcoming noted in the implementation of the Project, or to implement, or assist the Borrower in implementing, such other measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

(b) Without prejudice to the generality of the foregoing, SONELEC 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, the Subsidiary Loan Agreement and the Performance Contract, and other matters relating to the purposes of the Credit.

(c) SONELEC 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 SONELEC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. SONELEC shall, not later than October 1, 1992, prepare and submit to the Association a proposed schedule, which

shall be acceptable to the Association, for the gradual reduction of the preferential element included in water and electricity tariffs applicable to SONELEC employees.

Section 2.07. SONELEC commits itself to designate counterparts for the technical assistance experts whom it shall contract during the execution of this Project.

### ARTICLE III

#### Management and Operations of SONELEC

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

Section 3.02. SONELEC 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, technical and administrative practices.

Section 3.03. SONELEC 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. SONELEC shall inform the Association, prior to the conclusion of contracts with important industrial clients, that their financial consequences are not detrimental to the financial objectives as set out in the Performance Contract.

### ARTICLE IV

#### Financial Covenants

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

(b) SONELEC shall:

- (i) Submit to the Association for review its annual budget prior to approval by the competent authorities;
- (ii) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements), including those for the Special Account, if any, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iii) furnish to the Association as soon as available, but in any case not later than six months after the end of each fiscal 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
- (iv) 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.

(c) For all expenditures with respect to which withdrawals

from the Credit Account were made on the basis of statements of expenditure, SONELEC shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that the said accounts and records shall be audited on a semiannual basis by said auditors, who shall prepare audit reports accordingly and furnish them to the Association, not later than three (3) months after the end of such semiannual audit period, along with an opinion as to whether the statements of expenditure submitted during such period, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Except as the Association shall otherwise agree, SONELEC shall not incur any debt, unless the net revenues of SONELEC for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least one and a half times the estimated maximum debt service requirements of SONELEC for any succeeding fiscal year on all debt of SONELEC, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of SONELEC 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 adjusted to take account of SONELEC's prices in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate and net non-operating income; and
  - (B) the sum of 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.

- (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) Whenever for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.03. (a) Except as the Association may otherwise agree, SONELEC shall reduce its ratio of total operating expenses to total operating revenue from not more than 0.60, in 1992, and not more than 0.55 from 1993 onwards.

- (b) For the purposes of this Section:
  - (i) the term "total operating expenses" means the sum of the following expense accounts: total intermediate consumers including other costs and losses, personnel costs, taxes and duties; and
  - (ii) the term "total operating revenue" means the total of the following income accounts: total of sold production and subsidies for 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 SONELEC 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 SONELEC 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, telefax 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:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For SONELEC:

SONELEC  
B. P. 355  
Nouakchott  
Mauritanie

Telefax:

(222) 25 39 95

Telex:

5587 MTN

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 SONELEC, or by SONELEC on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Director-General or such other person or persons as the Director-General shall designate in writing, and SONELEC 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/ Edward V. K. Jaycox  
Regional Vice President  
Africa

SOCIETE NATIONALE D'EAU ET D'ELECTRICITE

By /s/ Mohamed Fall Ainina  
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, 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 Mauritania 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, SONELEC 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

Items or groups of items for goods estimated to cost the equivalent of US dollars 200,000 or less per contract, up to an aggregate amount equivalent to US dollars 500,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers, acceptable to the Association, from at least three different countries, eligible under the Guidelines, in accordance with procedures 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 for goods and works estimated to cost the equivalent of \$300,000 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 furnished 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 4 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

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 SONELEC in carrying out the Project, SONELEC 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.

