

CONFORMED COPY

CREDIT NUMBER 1701 YAR

Project Agreement

(Fourth Power Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

YEMEN GENERAL ELECTRICITY CORPORATION

Dated June 17, 1988

CREDIT NUMBER 1701 YAR

PROJECT AGREEMENT

AGREEMENT, dated June 17, 1988, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and YEMEN GENERAL ELECTRICITY CORPORATION (YGEC).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Yemen Arab Republic (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to ten million nine hundred thousand Special Drawing Rights (SDR 10,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that YGEC 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 YGEC, the proceeds of the credit provided for under the Development Credit Agreement will be made available to YGEC on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS YGEC, 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. (a) YGEC 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; and

(b) YGEC shall, at least until the completion of the Project, maintain the Project Unit with facilities, powers, organization, staff and terms of reference satisfactory to the Association.

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

Section 2.05. (a) YGEC 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) YGEC 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 YGEC of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 3.02. YGEC 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. YGEC 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.

ARTICLE IV

Financial Covenants

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

(b) YGEC shall:

(i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the Special Account 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 six 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 accounts and financial statements as well as the audit thereof and said records, as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals are requested from the Credit Account on the basis of statements of expenditure, YGEC shall:

(i) maintain, in accordance with paragraph (a) of this Section, separate records and accounts reflecting such expenditures;

(ii) retain, until one year after the Closing Date, 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 such separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by the said auditors as to whether the proceeds of the Credit withdrawn in respect of such expenditures have been used for the purpose for which they were provided.

Section 4.02. (a) Except as the Association shall otherwise agree, YGEC shall, from time to time, take all such measures (including, without limitation, adjustments of the structure or levels of its tariffs) as shall be required to produce an annual return of not less than 3% of the average current net value of YGEC's fixed assets in operation for fiscal years 1989 and 1990, and 5% for its 1991 fiscal year and for each of its fiscal years thereafter.

(b) Before September 30 in each of its fiscal years, starting with the 1986 fiscal year, YGEC shall, on the basis of forecasts prepared by YGEC and satisfactory to the Association, (i) review with the Borrower and the Association the adequacy of its revenues to meet the requirements set forth in paragraph (a) of this Section in respect of the next following fiscal year, and (ii) when any such review indicates that such revenues would not be sufficient to meet such requirements, determine, in consultation with the Association and before the beginning of the following fiscal year, the measures to be taken to meet such requirements and the time schedule for the implementation thereof.

(c) For the purposes of this Section:

(i) the annual return shall be calculated by dividing YGEC's net operating income for the fiscal year in question by one-half of the sum of the current net value of YGEC's fixed assets in operation at the beginning and at the end of that fiscal year;

(ii) the term "net operating income" means gross revenues from all sources related to YGEC's electricity operations less all expenses related to YGEC's electricity operations, including administration, adequate maintenance and taxes or any payments in lieu of taxes, and provision for depreciation. Interest and other charges on debt shall not be deducted from gross revenues;

(iii) the term "current net value of YGEC's fixed assets in operation" means the gross value of YGEC's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in

accordance with sound and consistently maintained methods of valuation satisfactory to the Association; and

(iv) without limitation to the provisions of paragraph (iii) above, YGEC undertakes to revalue its assets in any fiscal year in which the indices of the "unit value of manufactured exports from Developed to Developing Countries" and the "Consumer Price Index of Yemen" published by the Central Planning Organization of the Borrower shall show an increase of more than 15% over the year in which the last revaluation of YGEC's assets has been undertaken.

Section 4.03. (a) Except as the Association shall otherwise agree, YGEC shall not incur any debt in excess of the equivalent of \$1,000,000 per year, unless a reasonable forecast of the revenues and expenditures of YGEC shows that the projected internal cash generation of YGEC for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times the projected debt service requirement of YGEC in such year on all debt of YGEC including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of YGEC 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 further 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 but only to the extent that the guaranteed debt shall be outstanding.

(iii) The term "internal cash generation of YGEC" means gross revenues of YGEC from all sources, adjusted to take account of the YGEC's rates 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, less all operating expenses of YGEC, including expenses accountable to administration, maintenance and taxes (or payments in lieu of taxes), but before provision for depreciation of assets and interest and other charges on debt.

(iv) The term "debt service requirement" means the aggregate amount of amortization (including sinking fund payments, if any) of, and interest and other charges on, debt.

(v) The term "reasonable forecast" means a forecast prepared by YGEC and satisfactory to the Association in the fiscal year in which the debt in question is to be incurred, provided that no event has occurred since such preparation 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 YGEC.

(vi) Whenever for the purposes of this Section it shall be necessary to value, in terms of 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, with absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.04. YGEC shall take all action necessary on its part to ensure that all amounts due to it on account of its electricity services to its customers are paid

within 60 days of the date on which YGEC bills its customers for such services.

Section 4.05. Except as the Association shall otherwise agree, YGEC shall not enter into any loans, contracts, agreements or other instruments providing for capital expenditures in power generation in an aggregate amount greater than \$10,000,000. For purposes of this Section, the term "capital expenditures" means all expenditures incurred on account of fixed assets for power generation, including interest charged to construction of those assets.

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 YGEC thereunder shall terminate on the earlier of the following two dates;

in (i) the date on which the Development Credit Agreement shall terminate
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 YGEC 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 YGEC:

Yemen General Electricity Corporation
P.O. Box 178
Sana'a
Yemen Arab Republic

Cable address:

Telex:

ALKAHRABA
Sana'a

2619 YGEC-YE

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 YGEC may be taken or executed by the Managing Director of YGEC or such other person or persons as the Managing Director shall designate in writing, and YGEC 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. Stoutjesdijk

Acting Regional Vice President
Europe, Middle East and North Africa

YEMEN GENERAL ELECTRICITY CORPORATION

By /s/ Mohsim Alaini

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 C 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 Yemen Arab 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: Other Procurement Procedures

Contracts for goods estimated to cost the equivalent of not more than \$100,000 per contract and not more than \$400,000 in the aggregate may be awarded on the basis of evaluation and comparison of price quotations obtained from not less than three qualified suppliers.

Part D: 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 \$100,000 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 3 (the Special Account Schedule) 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 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist YGEC in the supervision of construction under the Project and in implementing the agreed recommendations of the consultants, currently employed by YGEC, for improving its organization, management and finance, YGEC shall employ consultants whose qualification, 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.

