

CONFORMED COPY

CREDIT NUMBER 2588 ET

Project Agreement

(Calub Gas Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

CALUB GAS SHARE COMPANY

Dated June 23, 1994

CREDIT NUMBER 2588 ET

PROJECT AGREEMENT

AGREEMENT, dated June 23, 1994, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and CALUB GAS SHARE COMPANY (Calub Company), a company established and operating under the laws of the Borrower.

WHEREAS (A) by the Development Credit Agreement of even date herewith between Ethiopia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifty three million seven hundred thousand Special Drawing Rights (SDR 53,700,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Calub Company agrees 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 Calub Company, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be relent to Calub Company on the terms and conditions set forth in the Subsidiary Loan Agreement; and

WHEREAS Calub Company 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, wherever used in this Agreement, 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. Calub Company 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 Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and commercial practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of 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. Calub Company 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 and Part A of the Project.

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

Section 2.05. (a) Calub Company shall, at the request of the Association, exchange views with the Association with regard to the progress of Part A 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) Calub Company shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Credit, or the performance by Calub Company of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of Calub Company

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

Section 3.02. Calub Company shall: (a) ensure that its production facilities are designed, constructed, operated and maintained in accordance with internationally accepted managerial, operational, safety and environmental practices, (b) implement the recommendations of the Steering Committee based on the findings of the environmental monitoring system to be set up under Part B.2 of the Project, and (c) 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 and financial practices.

Section 3.03. Calub Company shall appoint, under a supervision of implementation and operational management contract or contracts acceptable

to the Association, internationally reputable firm or firms acceptable to the Association to, inter alia: (a) supervise the completion of basic plant design, the preparation of bidding documents, the evaluation of bids and the selection of contractors for well completion and plant construction, (b) supervise well completion and plant construction, and (c) operate the plant during the first three years, beginning the latest three months before plant commissioning.

Section 3.04. Calub Company shall keep its senior management positions filled, at all times, by persons having experience and qualifications acceptable to the Borrower and the Association.

Section 3.05. Calub Company shall, by the end of each year, furnish to the Association and the Borrower for approval its annual training plan for the next following year.

Section 3.06. Calub Company 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 3.07. Calub Company shall, not later than six months after the Effective Date, issue invitations to bid for well completion and plant construction.

ARTICLE IV

Financial Covenants

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

(b) Calub Company shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (including those for Special Account B) 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 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, Calub Company shall maintain (i) a debt to equity ratio of less than 2.5, (ii) for each of its fiscal years after its third fiscal year of operation a ratio of current assets to current liabilities of not less than 1.5, and (iii) its accounts receivable below 90 days of its sales.

(b) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next year.
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could under circumstances then existing be called upon for payment within twelve months, including accounts payable,

customer advances, debt services requirements, taxes and payments in lieu of taxes, and dividends.

- (iii) The term "debt service requirements" means the aggregate amounts or repayments (including fund payments, if any) of, and interest and other charges on, debt.
- (iv) Whenever for the purpose 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.
- (v) The term "debt" means any indebtedness of Calub Company maturing by its terms more than one year after the date on which it is originally incurred.
- (vi) 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.
- (vii) The term "equity" means the sum of the total un-impaired paid-up capital, retained earnings and reserves of Calub Company not allocated to cover specific liabilities.

Section 4.03. Until the completion of the Project, Calub Company's annual capital expenditures in excess of the equivalent of 5% of its total assets, shall require the prior consent of the Association.

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 Calub Company 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 Calub Company 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:

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

For Calub Company

P.O. Box 402
Addis Ababa
Ethiopia

Telex:

21132 OIL ET

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 Calub Company or by Calub Company on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the General Manager or such other person or persons as the General Manager shall designate in writing, and Calub Company 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

CALUB COMPANY

By /s/ Berhane Gebre-Christos

Authorized Representative

SCHEDULE

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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 1992 (the Guidelines).
2. (a) For fixed price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods in accordance with this Part A, Calub Company shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, Calub Company shall use bidding documents based on other internationally recognized standard forms agreed with the Association.
3. Goods to be procured under this Part A, shall be exempted from preshipment price inspection by a third party inspection firm.
4. To the extent practicable, contracts for goods and work shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Ethiopia 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

Items, or groups of items, estimated to cost the equivalent of up to an aggregate amount equivalent to \$750,000 may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

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 for goods and works estimated to cost the equivalent of \$200,000 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 a 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 paragraph 2 (d) of said Appendix 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 paragraph 3 of said Appendix shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 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 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II: Employment of Consultants

1. In order to assist Calub Company in carrying out the Project, Calub Company 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 (the Consultants Guidelines).

2. For complex, time-based assignments, Calub Company shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, Calub Company shall use other standard forms agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 of this Section the provision of the Consultants Guidelines requiring prior review or approval by the Association of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to such prior review or approval requirements shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source hiring of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

