

CONFORMED COPY

CREDIT NUMBER 3354-SE

Project Agreement

(Urban Mobility Improvement Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SOCIETE NATIONALE DE CHEMINS DE FER DU SENEGAL

Dated July 5, 2000

CREDIT NUMBER 3354-SE

PROJECT AGREEMENT

AGREEMENT, dated July 5, 2000, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SOCIETE NATIONALE DE CHEMINS DE FER DU SENEGAL (SNCS).

WHEREAS (A) by the Development Credit Agreement of even date herewith between REPUBLIC OF SENEGAL (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to fifty two million two hundred thousand Special Drawing Rights (SDR 52,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that SNCS agree to undertake such obligations toward the Association as are set forth in this Agreement;

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

WHEREAS SNCS, 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) SNCS 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 B of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part B of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and SNCS shall otherwise agree, SNCS shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 4 to the Development Credit Agreement.

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 3 to the Development Credit Agreement.

Section 2.03. (a) SNCS 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 B of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, SNCS shall:

(i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and SNCS, a plan for the future operation of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with SNCS on said plan.

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

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

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

ARTICLE III

Management and Operations of SNCS

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

adequate numbers.

Section 3.02. SNCS 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 SNCS practices.

Section 3.03. SNCS 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) SNCS shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) SNCS 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 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) Without limitation upon the provisions of Section 4.01 of this Agreement, SNCS shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 4.01 in order to enable SNCS, not later than 18 months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, SNCS shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of

each calendar quarter a Project Management Report for such period.

Section 4.03. (a) Except as the Association shall otherwise agree, SNCS shall produce, for each of its fiscal years, after its fiscal year ending on December 31, 2000, funds from internal sources equivalent to: not less than 32% of its total operating revenue, for FY 2001; not less than 35% of its total operating revenue, for FY 2002; not less than 37% of the total operating revenue, for FY 2003; not less than 40% of its total operating revenue, for FY 2004; and not less than 40% of its total operating revenue, for FY 2005.

(b) Before December 31 in each of its fiscal years, SNCS shall, on the basis of forecasts prepared by SNCS 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 SNCS would not meet the requirements set forth in paragraph (a) for SNCS fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates prices 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, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and (B) the sum of 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), all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital 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 "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.

(iv) 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.

(v) The term "capital expenditures" means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

(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 4.04. (a) Except as the Association shall otherwise agree, SNCS shall maintain: (i) for Fiscal Year 2001, a ratio of total labor expenses to total operating

revenues not higher than 35%; (iii) for Fiscal Year 2002, a ratio of total labor expenses to total operating revenues not higher than 30%; (iv) for Fiscal Year 2003, a ratio of total labor expenses to total operating revenues not higher than 25%; (v) for each Fiscal Year after Fiscal Year ending on December 31, 2004, a ratio of total labor expenses to total operating revenues not higher than 20%; and (vi) for each Fiscal Year after Fiscal Year ending on December 31, 2005, a ratio of total labor expenses to total operating revenues not higher than 20%.

(b) Before December 31 in each Fiscal Year, SNCS shall, on the basis of forecasts prepared by SNCS and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such Fiscal Year and the next following Fiscal Year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that SNCS would not meet the requirements set forth in paragraph (a) for the Fiscal Years covered by such review, SNCS shall promptly take all necessary measures in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term "total labor expenses" means all expenses related to salaries and wages paid by SNCS to permanent and fixed-term staff employed by SNCS for its operations, excluding expenses related to the staff assigned to investment-related activities.

(ii) The term "total operating revenues" means revenues, comprising all taxes, from all sources related to operations, including the compensations for public service obligations.

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 SNCS 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 10 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 SNCS 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:

248423 (MCI) or
64145 (MCI)

For SNCS:

Cite Ibrahima SARR
B.P. 175 A
Thies
Senegal

Facsimile:

221-9511393

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 SNCS may be taken or executed by the Director General or such other person or persons as the Director General shall designate in writing, and SNCS 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/ Callisto Madavo

Regional Vice President
Africa

SOCIETE NATIONALE DE CHEMINS DE FERS DU SENEGAL

By /s/ Mamadou Mansour Seck

Authorized Representative

