

CONFORMED COPY

CREDIT NUMBER 2237 GUB

(Energy Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ELECTRICIDADE E AGUAS DA GUINE-BISSAU

Dated August 21, 1991

CREDIT NUMBER 2237 GUB

PROJECT AGREEMENT

AGREEMENT, dated August 21, 1991, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ELECTRICIDADE E AGUAS DA GUINE-BISSAU (EAGB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between REPUBLIC OF GUINEA-BISSAU (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eleven million three hundred thousand Special Drawing Rights (SDR 11,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that EAGB 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 EAGB, the proceeds of the credit provided for under the Development Credit Agreement will be relent to EAGB on the terms and conditions set forth in said subsidiary loan agreement (the Subsidiary Loan Agreement); and

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and EAGB shall otherwise agree, EAGB shall carry out Part C of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part C of 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. EAGB 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 C of the Project.

Section 2.04. EAGB shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, EAGB 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) EAGB shall, at the request of the Association, exchange views with the Association with regard to the progress of Part C 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) EAGB shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part C of the Project, the accomplishment of the purposes of the Credit, or the performance by EAGB of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of EAGB

Section 3.01. EAGB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and

engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. (a) EAGB 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 and financial practices.

(b) Subject to paragraph 5 of Schedule 2 to this Agreement, EAGB 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 3.03. EAGB shall acquire from the Borrower for fair consideration, not later than December 31, 1992, all its rights relating to the 4.2 MW Nova Central Electrica generating station currently under construction (including all rights under the related construction and installation contracts).

Section 3.04. EAGB shall: (a) pay in full over a five-year period existing arrears owed to DICOL in equal semiannual payments beginning end 1991, (b) pay interest accruing beginning January 1, 1992 on all outstanding arrears referred to in (a) above at the rate of 15% per annum, and (c) pay all bills to DICOL within 30 days of receipt of such bills.

Section 3.05. EAGB shall adopt, not later than December 31, 1991, a three-year rolling investment program for the period 1992-1994 acceptable to the Association, and shall implement such plan, as modified with the consent of the Association, provided that the consent of the Association shall not be required for any investments in addition to those set forth in such plan aggregating less than \$250,000 in any EAGB fiscal year.

Section 3.06. EAGB shall: (a) modify not later than December 31, 1991 its tariff indexation formula in a manner satisfactory to the Association, (b) annually review such formula with the Association, and (c) only further amend such formula with the agreement of the Association. Prior to such modification in 1991, EAGB shall only increase its tariffs from their March 1, 1991 levels if, and only to the extent that, the domestic price of petroleum increases.

Section 3.07. EAGB shall: (a) implement, not later than December 31, 1991, a metering and billing plan acceptable to the Association, including the installation by such date of meters for all customers, (b) implement a loss-reduction program acceptable to the Association designed to reduce overall system losses to 30% not later than December 31, 1992, and 27% not later than December 31, 1993, and (c) reduce average arrears from private customers to 90 days not later than December 31, 1991, and 80 days not later than December 31, 1993.

Section 3.08. EAGB shall implement the EAGB Financing Plan in a timely manner.

Section 3.09. EAGB shall, no earlier than January 1, 1993 and no later than March 31, 1993, carry out jointly with the Association a mid-term review of the progress made in carrying out Part C of the Project, including a review of EAGB's requirements for management consultant assistance.

ARTICLE IV

Financial Covenants

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

(b) EAGB 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.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, EAGB 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 for purposes of Part C or payment out of the EAGB 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 such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditures submitted during such fiscal year, 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, EAGB shall earn, for each of its fiscal years after its fiscal year ending on December 31, 1991, an annual return of not less than 10% of the average current net value of EAGB's fixed assets in operation.

(b) Before March 31 in each of its fiscal years, EAGB shall, on the basis of forecasts prepared by EAGB 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 the results of such review upon its completion.

(c) If any such review shows that EAGB would not meet the requirements set forth in paragraph (a) for EAGB's fiscal years

covered by such review, EAGB shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

- (d) For the purposes of this Section:
 - (i) The annual return shall be calculated by dividing EAGB's net operating income for the fiscal year in question by one half of the sum of the current net value of EAGB's fixed assets in operation at the beginning and at the end of that fiscal year.
 - (ii) The term "net operating income" means total operating revenues less total operating expenses.
 - (iii) The term "total operating revenues" means revenues from all sources related to operations.
 - (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes (other than taxes on revenue), and provision for depreciation on a straight-line basis at a rate of not less than 6% per annum of the average current gross value of EAGB's fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.
 - (v) The average current gross value of EAGB's fixed assets in operation shall be calculated as one half of the sum of the gross value of EAGB's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.
 - (vi) The term "current net value of EAGB's fixed assets in operation" means the gross value of EAGB'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.

Section 4.03. (a) Except as the Association shall otherwise agree, EAGB shall not incur any debt unless a reasonable forecast of the revenues and expenditures of EAGB shows that the estimated net revenues of EAGB for each fiscal year during the term of the debt to be incurred shall be at least one and a half (1-1/2) times the estimated debt service requirements of EAGB in such year on all debt of EAGB including the debt to be incurred.

- (b) For the purposes of this Section:
 - (i) The term "debt" means any indebtedness of EAGB 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 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 (other than taxes on revenue), 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 prepared by EAGB not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and EAGB accept as reasonable and as to which the Association has notified EAGB 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 EAGB.
- (vii) 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, EAGB shall not incur any debt if after the incurrence of such debt the ratio of debt to equity shall be greater than 70 to 30.

(b) For purposes of this Section:

- (i) The term "debt" means any indebtedness of EAGB 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 "equity" means the sum of the total unimpaired paid-up capital, retained earnings and reserves of EAGB not allocated to cover specific liabilities.
- (iv) 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.

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 EAGB 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 twenty 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 EAGB 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 (RCA)
82987 (FTCC)

64145 (WUI) or
197688 (TRT)

For EAGB:

Electricidade e Aguas da Guine-Bissau, E.P.
Rua Eduardo Mondlane, 14 - Bissau
1021 Bissau Codex
Guine-Bissau

Telex:

223

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 EAGB, or by EAGB on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Director General of EAGB or such other person or persons as the Director General of EAGB shall designate in writing, and EAGB 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/ Edwin R. Lim
Acting Regional Vice President
Africa

ELECTRICIDADE E AGUAS DA GUINE-BISSAU

By /s/ Alfredo L. Cabral
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part B hereof, goods or 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).

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

Part B: Other Procurement Procedures

1. Items or groups of items for goods estimated to cost up to an aggregate amount equivalent to \$340,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$50,000 or more.

Part C: 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 estimated to cost the equivalent of \$150,000 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 EAGB 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 EAGB 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 EAGB 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 this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals 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

In order to assist EAGB in carrying out Part C of the Project, EAGB 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.

SCHEDULE 2

Implementation Program

1. EAGB's project implementation and control team, established in accordance with paragraph 3 (c) of Schedule 1 to the Development Credit Agreement, shall monitor implementation of Part C of the Project, and shall be responsible for training EAGB's staff.

2. In carrying out Part C.4 of the Project, EAGB shall implement, not later than June 30, 1992, an accounting and financial management system acceptable to the Association, including adoption of a methodology, and the related procedures, for revaluing EAGB's fixed assets on a yearly basis.

3. In connection with training of EAGB's staff under Part C.4 of

the Project, EAGB shall prepare not later than December 31, 1991 a timetable, satisfactory to the Association, for the replacement of expatriate staff with local staff, and shall implement such timetable in a timely manner.

4. EAGB shall cooperate with MNRI regarding the preparation, due not later than June 30, 1992, of the least-cost expansion study for electric power generating capacity for the period 1995-2000.

5. EAGB shall acquire all appropriate insurance coverage not later than December 31, 1991.

6. EAGB shall implement, not later than June 30, 1992, an accounting and management information system acceptable to the Association.

7. EAGB shall, not later than December 31, 1991, enter into an on-lending agreement with Banco Central da Guine-Bissau, on reasonable terms, relating to Unit No. 7 2.2 MW generator so as to permit its concurrent acquisition of such unit.

8. EAGB shall act as purchasing agent and otherwise assist the Borrower in acquiring and installing the transformers and meters provided for under Part A.4 of the Project.

