Project Agreement

(Textile Rehabilitation Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

YEMEN TEXTILE CORPORATION

Dated July 25, 1978
PROJECT AGREEMENT

AGREEMENT, dated July 25, 1978, between INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association) and YEMEN TEXTILE CORPORATION (hereinafter called the Company).

WHEREAS by the Development Credit Agreement of even date herewith between Yemen Arab Republic (hereinafter called the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to seven million dollars ($7,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Company agree to undertake such obligations toward the Association as are hereinafter set forth;

WHEREAS by a subsidiary loan agreement to be entered into between the Borrower and the Company, the proceeds of the credit provided for under the Development Credit Agreement will be made available to the Company on the terms and conditions therein set forth; and

WHEREAS the Company, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Agreement, unless the context shall otherwise require, 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. The Company shall carry out the Project described in Schedule 2 to the Development Credit Agreement, except Part D thereof, with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices.
Section 2.02. In order to assist the Company in carrying out Parts A, B and C of the Project and in improving the Company's production methods, operating procedures and management performance, the Company shall employ, until the completion of the Project, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association.

Section 2.03. Before implementing the training program provided under Part C of the Project, the Company shall prepare, with the assistance of the consultants referred to under the preceding Section 2.02, and submit to the Association, not later than June 30, 1979, a detailed training program acceptable to the Association and shall thereafter carry out such program in accordance with such time schedule as shall be agreed with the Association.

Section 2.04. Except as the Association shall otherwise agree, procurement of the goods to be financed out of the proceeds of the Credit, shall be governed by the provisions of the Schedule to this Agreement.

Section 2.05. (a) The Company undertakes to insure, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Credit relent to it by the Borrower against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable by the Company to replace or repair such goods.

(b) Except as the Association may otherwise agree, the Company shall cause all goods and services financed out of the proceeds of the Credit relent to it by the Borrower to be used exclusively for the Project.

Section 2.06. (a) The Company shall furnish to the Association, promptly upon their preparation, the plans, specifications, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Association shall reasonably request.

(b) The Company: (i) shall maintain records and procedures adequate to record and monitor the progress of the Project
(including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Credit, and to disclose their use in the Project; (ii) shall enable the Association's accredited representatives to visit the facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Credit and any relevant records and documents; and (iii) shall furnish to the Association, until the completion of the Project, monthly progress reports, each of such reports to be furnished within 45 days from the end of each calendar month and to contain all such information as the Association shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditures of such proceeds and the goods and services financed out of such proceeds.

(c) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Company and the Association, the Company shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Company and the Association of their respective obligations under the Credit Agreement and the accomplishment of the purposes of the Credit.

(d) The Company shall enable the Association's representatives to examine all plants, installations, sites, works, buildings, property and equipment of the Company and any relevant records and documents.

Section 2.07. The Company shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, the Company 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 2.08. (a) The Company 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) The Company 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 the Company of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III
Management and Operations of the Company

Section 3.01. The Company shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 3.02. From the date of this Agreement until five years shall have expired after the completion of the Project, the Company shall not approve any new expansion project involving expenditures exceeding the equivalent of $1,000,000 unless the Company shall have submitted to the Association evidence demonstrating to the satisfaction of the Association that such project would not adversely affect the Company's managerial performance or financial position.

Section 3.03. The Company shall: (a) implement, with the assistance of the consultants referred to under Section 2.02 of this Agreement, and submit to the Association, not later than June 30, 1979, a study on the marketing and sales policies of the Company; and (b) introduce, in light of the recommendations of said study, such changes in such policies as shall be agreed with the Association.

Section 3.04. The Company shall prepare, with the assistance of the consultants referred to under Section 2.02 of this Agreement, and submit to the Association, by June 30, 1980, a feasibility study on further modernization of the Sana'a mill of the Company. Such study shall investigate, inter alia, the economic viability and scope of such modernization and the time-schedule for its implementation.

Section 3.05. The Company shall at all times operate and maintain its plants, facilities, equipment and other property, and promptly as required make all necessary repairs and renewals thereof, in accordance with appropriate engineering and financial practices.
Section 3.06. The Company shall take all necessary measures to ensure that the execution and operation of facilities included under the Project shall be carried out with due regard to the safeguarding of the environment. To that end, the Company shall install, and thereafter maintain at all times, adequate pollution control facilities and shall observe pollution control standards, satisfactory to the Borrower and the Association.

ARTICLE IV

Financial Covenants

Section 4.01. The Company shall maintain records adequate to reflect in accordance with consistently maintained appropriate accounting practices its operations and financial condition.

Section 4.02. The Company shall: (i) have its 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 the accounts and financial statements of the Company and the audit thereof as the Association shall from time to time reasonably request.

Section 4.03. From the Effective Date onwards, the Company shall provide the Association with quarterly reports on the financial position of the Company; each of such reports to be provided within 45 days from the end of each three-month period and to contain such information as the Association shall reasonably request.

Section 4.04. (a) Except as the Association may otherwise agree, the Company shall not incur any debt unless the Company's net revenues from its operations for the fiscal year next preceding such incurrence or for a later twelve-month period ending prior to such incurrence, whichever revenues are the greater, shall be at least 1.5 times the maximum debt service (including the debt to be incurred) for any succeeding fiscal year.
(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Company may otherwise agree, the Company shall not incur any debt if, after the incurring of such debt, the ratio between the debt of the Company then incurred and outstanding and the capital and surplus of the Company would be greater than 60/40.

(c) For the purposes of this Section:

(i) "debt" means any debt 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 on the date of execution and delivery of a contract, loan agreement or guarantee agreement providing for such debt;

(iii) whenever in connection with this Section it shall be necessary to value in terms of Yemeni Rials debt payable in foreign currency, such valuation shall be made at the prevailing lawful rate of exchange at which such foreign currency is, at the time of such valuation, obtainable by the Company for the purposes of servicing such debt;

(iv) the term "net revenues" means the gross revenues from all sources less all operating and administrative expenses (including adequate maintenance and taxes, if any) but before provision covering depreciation and interest and other charges on debt; and

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

Section 4.05. (a) Except as the Association shall otherwise agree, the Company shall maintain a ratio of current assets to current liabilities of not less than 1.5:1.

(b) For the purposes of this Section:

(1) "Current assets" shall include cash, accounts receivable due within twelve months, inventories
convertible to saleable goods within twelve months, pre-paid expenses, and all other assets which could, in the ordinary course of business, be converted within twelve months into cash.

(ii) "Current liabilities" shall include accounts payable within twelve months, customer advances, income taxes, dividends, bonuses, and all other liabilities (including long-term debt) which will be due and payable or could be called for payment, within twelve months.

(c) Except as the Association shall otherwise agree, the Company shall not declare any dividend or make any other distribution with respect to its share capital, except when, after such dividend has been paid or other distribution has been made, the ratio of the Company's current assets to the Company's current liabilities shall be not less than that specified under paragraph (a) of this Section.

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 the 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) a date twelve 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 the 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
1813 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: INDEVAS
Telex: 440098 (ITT)
Washington, D.C.
248423 (RCA) or 64145 (WUI)

For the Company:

Yemen Textile Corporation
Sana'a, Yemen Arab Republic

Cable address: YEMENSEEJ
Telex: 249 YEMSEEJ
Sana'a

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 the Company may be taken or executed
by the Chairman of the Company or such other person or persons as
the Chairman shall designate in writing, and the 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 coun-
terparts, each of which shall be an original, and all collectively
but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through
their representatives thereunto duly authorized, 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/ Martijn J.W.M. Paijmans
   Acting Regional Vice President
   Europe, Middle East and North Africa

YEMEN TEXTILE CORPORATION

By /s/ Yahya Al Mutawakel
   Authorized Representative
SCHEDULE

Procurement

A. International Competitive Bidding

1. Except as provided in Part B hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in the "Guidelines for Procurement under World Bank Loans and IDA Credits" published by the Bank in March 1977 (hereinafter called the Guidelines), on the basis of international competitive bidding as described in Part A of the Guidelines.

2. For goods to be procured on the basis of international competitive bidding, in addition to the requirements of paragraph 1.2 of the Guidelines, the Company shall prepare and forward to the Association as soon as possible, and in any event not later than 60 days prior to the date of availability to the public of the first tender documents relating thereto, as the case may be, a general procurement notice, in such form and detail and containing such information as the Association shall reasonably request; the Association will arrange for the publication of such notice in order to provide timely notification to prospective bidders of the opportunity to bid for the goods in question. The Company shall provide the necessary information to update such notice annually so long as any goods remain to be procured on the basis of international competitive bidding.

3. For the purpose of evaluation and comparison of bids for the supply of goods to be procured on the basis of international competitive bidding, (i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or the ex-factory price for domestically manufactured goods, if any; (ii) customs duties and other import taxes on imported goods, and sales and similar taxes on domestically supplied goods, shall be excluded; and (iii) the cost to the Company of inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

B. Other Procurement Procedures

Goods estimated to cost not more than the equivalent of $100,000 per contract and $500,000 in the aggregate may be procured through international shopping, after obtaining quotations
from suppliers from not less than three member countries of the International Bank for Reconstruction and Development or Switzerland.

C. Review of Invitations to Bid and of Proposed Awards and Final Contracts

1. With respect to all contracts estimated to cost the equivalent of $100,000 or more:

   (a) Before bids are invited, the Company shall furnish to the Association, for its comments, the text of the invitations to bid and the specifications and other bidding documents, together with a description of the advertising procedures to be followed for the bidding, and shall make such modifications in the said documents or procedures as the Association shall reasonably request. Any further modification to the bidding documents shall require the Association's concurrence before it is issued to the prospective bidders.

   (b) After bids have been received and evaluated, the Company shall, before a final decision on the award is made, inform the Association of the name of the bidder to which it intends to award the contract and shall furnish to the Association, in sufficient time for its review, a detailed report, by the consultants referred to in Section 2.02 of this Agreement, on the evaluation and comparison of the bids received, together with the recommendations for award of the said consultants and such other information as the Association shall reasonably request. The Association shall, if it determines that the intended award would be inconsistent with the Guidelines or this Schedule, promptly inform the Company and state the reasons for such determination.

   (c) The terms and conditions of the contract shall not, without the Association's concurrence, materially differ from those on which bids were asked.

   (d) Two conformed copies of the contract shall be furnished to the Association promptly after its execution and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract.

2. With respect to each contract not governed by the preceding paragraph, the Company shall furnish to the Association, promptly
after its execution and prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids, recommendations for award and such other information as the Association shall reasonably request. The Association shall, if it determines that the award of the contract was not consistent with the Guidelines or this Schedule, promptly inform the Company and state the reasons for such determination.

3. Before agreeing to any material modification or waiver of the terms and conditions of a contract, or granting an extension of the stipulated time for performance of such contract, or issuing any change order under such contract (except in cases of extreme urgency) which would increase the cost of the contract by more than 30% of the original price, the Company shall inform the Association of the proposed modification, waiver, extension or change order and the reasons therefor. The Association, if it determines that the proposal would be inconsistent with the provisions of this Agreement, shall promptly inform the Company and state the reasons for its determination.