Development Credit Agreement

(Textile Rehabilitation Project)

between

YEMEN ARAB REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 25, 1978
DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 25, 1978, between YEMEN ARAB REPUBLIC (hereinafter called the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (hereinafter called the Association.)

WHEREAS (A) the Borrower has requested the Association to assist in the financing of the foreign exchange cost of the Project described in Schedule 2 to this Agreement by extending the Credit as hereinafter provided;

(B) the Project, with the exception of Part D thereof, will be carried out by the Yemen Textile Corporation of the Borrower (hereinafter called the Company) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Company the proceeds of the Credit as hereinafter provided;

(C) the Borrower intends to contract from another external source of finance (hereinafter called the Co-Financier) a loan (hereinafter called the Co-Financier Loan) in an amount equivalent to about one million five hundred thousand dollars ($1,500,000) to assist in financing the Project on the terms and conditions set forth in an agreement (hereinafter called the Co-Financier Loan Agreement) to be entered into between the Borrower and the Co-Financier; and

WHEREAS the Association has agreed, on the basis inter alia of the foregoing, to extend the Credit to the Borrower upon the terms and conditions hereinafter set forth and in the Project Agreement of even date herewith between the Association and the Company;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I
General Conditions; Definitions

Section 1.01. The parties to this Agreement accept all the provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated March 15, 1974, with the same force and effect as if they were fully set forth herein
(said General Conditions Applicable to Development Credit Agreements of the Association being hereinafter called the General Conditions).

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Project Agreement" means the agreement between the Association and the Company of even date herewith, as the same may be amended from time to time, and such term includes all schedules to the Project Agreement and all agreements supplemental to the Project Agreement;

(b) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Company pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and

(c) "Yemeni Rial" means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions in the Development Credit Agreement set forth or referred to, an amount in various currencies equivalent to seven million dollars ($7,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and the Association, for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. 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 set forth or referred to in Section 2.04 of the Project Agreement.

Section 2.04. The Closing Date shall be December 31, 1982 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Service charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 1 and August 1 commencing August 1, 1988, and ending February 1, 2028, each installment to and including the installment payable on February 1, 1998, to be one-half of one per cent (1/2 of 1%) of such principal amount, and each installment thereafter to be one and one-half per cent (1-1/2%) of such principal amount.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Company is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) Without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause the Company to perform in accordance with the provisions of the Project Agreement and the Subsidiary Loan Agreement all the obligations therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources,
necessary or appropriate to enable the Company to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend the proceeds of the Credit to the Company under a Subsidiary Loan Agreement acceptable to the Association pursuant to which the Company shall, inter alia: (i) repay the equivalent in terms of Yemeni Rials of the proceeds of the Credit so relented (such equivalent to be determined as of the respective dates of repayment of the proceeds of the Credit so relented) in equal or approximately equal annual or semiannual installments over a period of twelve years including a grace period of four years; and (ii) pay interest at the rate of 7-1/2% and service charge at the rate of 2-1/2% per annum, on the principal amount of the subsidiary loan withdrawn and outstanding from time to time.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(d) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall: (i) provide the Company, in the form of a capital contribution, with funds totalling about 38,250,000 Yemeni Rials; such funds to be provided in two installments in the approximate amounts of 10,000,000 and 28,250,000 Yemeni Rials and not later than August 1, 1978 and January 1, 1979, respectively; and (ii) provide the Company, on the terms and conditions provided under paragraph (b) of this Section, with a loan in an amount of about 38,250,000 Yemeni Rials; such loan to be provided in two installments in the approximate amounts of 28,250,000 and 10,000,000 Yemeni Rials and not later than July 1, 1979 and June 30, 1980, respectively.

Section 3.02. The Borrower shall: (a) employ, not later than October 31, 1978, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association, in order to assist the Borrower in carrying out the study provided under Part D of the Project; and (b)
provide the Association with a copy of said study promptly upon its completion.

ARTICLE IV

Other Covenants

Section 4.01. In order to ensure that any future expansion in the Borrower's textile industry would not adversely affect the Company's managerial performance or financial position, the Borrower undertakes to consult with the Association before authorizing the implementation of any new textile project involving investments costing in the aggregate more than the equivalent of $1,000,000.

Section 4.02. The Borrower undertakes: (a) to enable the Company to procure its cotton requirements from the most economic sources; and (b) promptly to provide the Company with all import licenses and foreign exchange required for the procurement of such cotton, chemicals, fuel and other inputs as shall be required for operating the Company's mills.

Section 4.03. The Yemen General Electricity Corporation (YGEC) of the Borrower is currently implementing, with the assistance of consultants, a study in order to formulate a new tariff system for YGEC. In recognition of the effect of implementing said study's recommendations on the financial position of the Company and in order to enable the Association to exchange views with the Company on the means most appropriate for securing the Company's electric needs, the Borrower undertakes to provide the Association with a copy of said study promptly upon its completion.

Section 4.04. The Borrower shall consult with the Association, not later than June 30, 1981, on the Company's need, beyond December 31, 1981, for the continuity of the technical assistance provided under the Project.

Section 4.05. Without limitations upon the provisions of Section 3.01 (a) of this Agreement, whenever the Company fails to maintain the ratio, specified under Section 4.04 (a) of the Project Agreement, of the Company's current assets to current liabilities so that such ratio drops to a level of less than 1.2:1, the Borrower shall promptly provide the Company with all funds required to raise such ratio to such level.
ARTICLE V
Remedies of the Association

Section 5.01. For the purposes of Section 6.02 of the General Conditions the following additional events are specified pursuant to paragraph (h) thereof:

(a) The Co-Financier Loan Agreement shall have failed to become effective by December 31, 1978.

(b) The Company shall have failed to perform any covenant, agreement or obligation of the Company under the Project Agreement or the Subsidiary Loan Agreement.

(c) An extraordinary situation shall have arisen which shall make it improbable that the Company will be able to perform its obligations under the Project Agreement or the Subsidiary Loan Agreement.

(d) The Company's Establishment Act shall have been amended, suspended, abrogated, repealed or waived in such a way as to materially and adversely affect the ability of the Company to carry out the covenants, agreements and obligations set forth in the Project Agreement or the Subsidiary Loan Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Company or for the suspension of its operations.

(f) The Company shall have become unable to pay its debts as they mature or any action or proceeding shall have been taken by the Company or by others whereby any of its assets shall or may be distributed among its creditors.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower to withdraw the proceeds of the Co-Financier Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Co-Financier loan Agreement, or
(B) The Co-financier Loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement, and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (d) thereof:

(a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower and the Company; and

(b) any of the events specified in paragraphs (d), (e), (f) or (g) (i) (B) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the execution and delivery of the Project Agreement on behalf of the Company have been duly authorized or ratified by all necessary corporate and governmental action;

(b) the execution and delivery of the Subsidiary Loan Agreement on behalf of the Borrower and the Company, respectively, have been duly authorized or ratified by all necessary governmental and corporate action;

(c) the Borrower and the Company have duly concluded an agreement providing for the loan referred to under Section 3.01
(d) (ii) of this Agreement and such agreement is in full force and effect; and

(d) the Co-Financier Loan Agreement has been duly signed on behalf of the parties thereto.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by the Company, and is legally binding upon the Company in accordance with its terms;

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Company and is legally binding upon the Borrower and the Company in accordance with its terms; and

(c) that the agreement providing for the loan referred to under Section 3.01 (d) (ii) of this Agreement has been duly authorized or ratified by the Borrower and the Company and is legally binding upon the Borrower and the Company in accordance with its terms.

Section 6.03. The date November 22, 1978 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Sections 4.01, 4.02, 4.06 and the provisions of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on a date ten years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Central Planning Organization of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purpose of Section 11.01 of the General Conditions:
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.

YEMEN ARAB REPUBLIC

By /s/ Yahya Al Mutawakel
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Martijn J.W.M. Paijmans
Acting Regional Vice President
Europe, Middle East and North Africa
SCHEDULE 1
Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in Dollar Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Machinery, equipment and spare parts</td>
<td>4,000,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(2) Consultants' services</td>
<td>2,200,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(3) Training</td>
<td>100,000</td>
<td>100% of foreign expenditures</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>700,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>7,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

2. For the purposes of this Schedule, the term "foreign expenditures" means expenditures in the currency of any country other than the Borrower and for goods or services supplied from the territory of any country other than the Borrower.

3. The disbursement percentages have been calculated in compliance with the policy of the Association that no proceeds of the Credit shall be disbursed on account of payments for taxes levied by, or in the territory of, the Borrower on goods or services, or on the importation, manufacture, procurement or supply thereof; to that end, if the amount of any such taxes levied on or in respect of any item to be financed out of the proceeds of the Credit decreases or increases, the Association may, by notice to the
Borrower, increase or decrease the disbursement percentage then applicable to such item as required to be consistent with the aforementioned policy of the Association.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of $300,000 may be made in respect of Category (2) on account of payments made for such expenditures before that date but after May 1, 1978.

5. Notwithstanding the allocation of an amount of the Credit or the disbursement percentages set forth in the table in paragraph 1 above, if the Association has reasonably estimated that the amount of the Credit then allocated to any Category will be insufficient to finance the agreed percentage of all expenditures in that Category, the Association may, by notice to the Borrower: (i) reallocate to such Category, to the extent required to meet the estimated shortfall, proceeds of the Credit which are then allocated to another Category and which in the opinion of the Association are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the disbursement percentage then applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made.

6. If the Association shall have reasonably determined that the procurement of any item in any Category is inconsistent with the procedures set forth or referred to in this Agreement, no expenditures for such item shall be financed out of the proceeds of the Credit and the Association may, without in any way restricting or limiting any other right, power or remedy of the Association under the Development Credit Agreement, by notice to the Borrower, cancel such amount of the Credit as, in the Association's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Credit.
SCHEDULE 2

Description of the Project

The Project consists of the following:

**Part A:** Rehabilitation and Replacement of Machinery; Maintenance and Management

The rehabilitation program will be carried out in two phases:

1. **Phase I** - To be implemented by December 31, 1979. Works under this phase consist of:

   (a) replacement of a small number of machines which cannot be economically or technically reconditioned or which are excessively labor-intensive;

   (b) reconditioning of other machinery through overhauling;

   (c) improvement of the maintenance services and facilities;

   (d) completing the ongoing work for the erection and putting into operation of about 100 Czech looms;

   (e) improvement, through technical assistance and training, of the Company's operational procedures; and

   (f) the introduction of proper mill planning and effective administrative and production control.

2. **Phase II** - To be implemented during the years 1980 and 1981. Works under this phase consist of:

   (a) replacement or modernization of all the original spinning equipment;

   (b) expanding the weaving capacity through the erection of about 76 new looms;
(c) rehabilitation of the existing spinning machines for the production of cotton wool and sewing thread; and 

(d) installation of new yarn dyeing units and replacement of some of the processing departments' machines.

Part B: Buildings, Infrastructures and Utilities

1. The construction of about 4,200 m² of buildings in order to accommodate the new spinning equipment and looms.

2. The expansion of the Company's infrastructure and utilities.

Part C: Training

On-the-job, local and overseas training for the Company's staff.

Part D: Study

The implementation of a study of the social, economical, cultural and educational aspects of women employment in the textile industry.

* * *

The Project shall be considered to be completed after the plant has been operated at an average of not less than 90% of its rated capacity for not less than a twelve-month period. Such operation is expected to be completed, together with all other works under the Project, by December 31, 1981.