Project Agreement

(Eritrea Power Distribution and Rural Electrification Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

Eritrean Electric Corporation

Dated September 22, 2004
PROJECT AGREEMENT

AGREEMENT, dated September 22, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ERITREAN ELECTRIC CORPORATION (EEC).

WHEREAS (A) by the Development Financing Agreement of even date herewith between the State of Eritrea (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty million Special Drawing Rights (SDR 20,000,000) (the Credit) and an amount in various currencies equivalent to fourteen million five hundred thousand Special Drawing Rights (SDR 14,500,000) (the Grant), on the terms and conditions set forth in the Development Financing Agreement, but only on conditions that EEC agree to undertake such obligations toward the Association as are set forth in this Agreement;

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

WHEREAS, EEC, in consideration of the Association’s entering into the Development Financing 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 Financing 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 Parts A, B, and D.2 of the Project

Section 2.01. (a) EEC declares its commitment to the objectives of Parts A, B, and D.2 of the Project as set forth in Schedule 2 to the Development Financing Agreement, and, to this end, shall carry out Parts A, B, and D.2 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and EEC shall otherwise agree, EEC shall carry out the Project in accordance with the Procurement Plan and provisions set forth in Schedule 4 to the Development Financing Agreement and Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works, consultants’ services and training required for the Project and to be financed out of the proceeds of the Financing shall be governed by the provisions of Schedule 3 to the Development Financing Agreement.

Section 2.03. (a) EEC 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 Parts A, B, and D.2 of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, EEC 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 EEC, a plan for the future operation of Parts A, B, and D.2 of the Project, designed to ensure its sustainability; and

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

Section 2.04. EEC shall duly perform all its obligations under the Subsidiary Financing Agreement. Except as the Association shall otherwise agree, EEC shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Financing Agreement or any provision thereof.
Section 2.05. (a) EEC shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A, B, and D.2 of the Project, the performance of its obligations under this Agreement and under the Subsidiary Financing Agreement, and other matters relating to the purposes of the Financing.

(b) EEC shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A, B, and D.2 of the Project, the accomplishment of the purposes of the Financing, or the performance by EEC of its obligations under this Agreement and under the Subsidiary Financing Agreement.

ARTICLE III

Management and Operations of EEC

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

Section 3.02. EEC 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, environmental and technical practices.

Section 3.03. EEC 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) EEC shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Parts A, B, and D.2 of the Project.

(b) EEC 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 auditing standards acceptable to the Association, 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 the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon EEC’s reporting obligations set out in paragraphs 6 and 7 of Schedule 4 to the Development Financing Agreement, EEC shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for Parts A, B, and D.2 of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;

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

(iii) sets forth the status of procurement under Parts A, B, and D.2 of the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under Parts A, B, and D.2 of the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Except as the Association shall otherwise agree, EEC shall:

(a) maintain a debt service coverage ratio of at least 1.3 throughout the implementation period commencing FY 2006;
(b) maintain, at less than 60 day accounts, all receivables from electricity sales throughout the implementation period;

(c) maintain return on assets of at least 2% throughout the implementation period commencing FY2006;

(d) partially finance its investment program throughout the implementation period commencing FY2006; and

(e) provide adequate financing from its internal sources for Project counterpart contribution in respect of Parts A, B, and D.2 of the Project.

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 Financing Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of EEC thereunder shall terminate on the date on which the Development Financing Agreement shall terminate in accordance with its terms, and the Association shall promptly notify EEC thereof.

(b) If the Development Financing Agreement terminates in accordance with its terms before the date specified in paragraph (a) of this Section, the Association shall promptly notify EEC 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, by mail, telex or facsimile 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. Deliveries made by facsimile transmission shall also be confirmed by mail. 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
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: (202) 477-6391

For EEC:

Eritrean Electric Corporation
87 Nakfa Avenue
PO Box 911
1A176, Asmara
Eritrea

Facsimile: 291 1 124984

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 EEC, or by EEC on behalf of the Borrower under the Development Financing Agreement, may be taken or executed by General Manager of EEC or such other person or persons as EEC shall designate in writing, and EEC 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 Asmara, State of Eritrea as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Makhtar Diop
Authorized Representative

ERITREAN ELECTRIC CORPORATION

By /s/ Abraham Woldemicael
Authorized Representative
SCHEDULE 1

Implementation Program

A. General

1. EEC shall:
   
   (a) carry out Parts A, B, and D.2 of the Project in accordance with the Procurement Plan and Financial Management Manual, except as the Association shall otherwise agree, EEC shall not amend, abrogate or waive any provision of the such plans if, in the opinion of the Association, such amendment, abrogation or waiver may materially and adversely affect the carrying out Parts A, B, and D.2 of the Project or the achievement of the objectives thereof. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail; and
   
   (b) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 2 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
   
   (c) ensure that an updated Procurement Plan is submitted to the Association for its review on an annual basis by June 30 of every year of Project implementation, commencing June 30, 2005.

B. Project Management

2. EEC shall:
   
   (a) maintain, until the completion of the Project, a PMU, in a form and with functions and resources satisfactory to the Association, with competent staff in adequate numbers, all with terms of reference, qualifications, experience and terms of employment satisfactory to the Association, including: (i) a Project manager; (ii) a technical advisor, (iii) a general services advisor, (iv) a procurement specialist; (v) an accountant; (vi) a public relations specialist; and (vii) an environmental coordinator;
   
   (b) the PMU shall be responsible for the day-to-day implementation of Parts A, B, and D.2 of the Project, including, inter alia: (i) carrying out procurement, (ii) providing technical support, (iii) managing Project finances; (iv) carrying out studies as per the implementation plan, (v) monitoring and evaluating the implementation of the work program and its impact; and (vi) implementing the ESMMP and RPF;
   
   (c) in carrying out rehabilitation work under Part A of the Project, EEC shall take all measures necessary to ensure that disruptions to Asmara residents shall be minimized and that the residents’ concerns are adequately and timely addressed; and
(d) from time to time, consult, the Technical Committee in carrying out Part A of the Project; and the Support Committee in carrying out Part B of the Project.

B. Quarterly Progress Report, Semi-Annual Reports and Midterm Reviews

3. Quarterly Progress Report

EEC shall:

(a) prepare and furnish to the Association, each respective quarterly report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (b) of this Schedule, on the progress achieved in the carrying out of Parts A, B, and D.2 of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out Parts A, B, and D.2 of the Project and the achievement of the objectives thereof during the period following such date;

(c) not later than one month prior to the date of the joint semi-annual review, furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, on the progress Parts A, B, and D.2 of the Project; and

(d) following each semi-annual review, act promptly and diligently in order to, jointly with the Borrower, take any corrective action deemed necessary to remedy any shortcoming identified in the implementation of Parts A, B, and D.2 of the Project, as agreed upon by the Association in furtherance of the objectives of Parts A, B, and D.2 of the Project.

4. Midterm Review

EEC shall:

(a) not later than December 30, 2006, carry out jointly with the Borrower and the Association a mid-term review, which shall cover: (i) overall progress in the implementation of Parts A, B, and D.2 of the Project in meeting the objectives thereof; and (ii) the results of the monitoring and evaluation activities, as measured against the performance indicators;

(b) not later than one month before such review referred to in subparagraph (a) above, jointly with EEC, prepare and furnish to the Association a report in such scope and detail as the Association shall reasonably request, on the implementation of Parts A, B, and D.2 of the Project and achievement of the objectives thereof, including a program of action to deal with potential deficiencies in the implementation of Parts A, B, and D.2 of the Project, as may have been identified prior to carrying out such review; and

(c) thereafter, act promptly and diligently, in order to take all measures required to ensure the efficient completion of Parts A, B, and D.2 of the Project and the
achievement of the objectives thereof, based on the conclusion and recommendations of the said report and the Association’s view on the matter.

C. Environmental and Social Framework and Resettlement Policy Framework

5. Except as the Association shall otherwise agree, EEC shall: (a) carry out the Project in accordance with the environmental, social and resettlement guidelines, rules and procedures defined in the ESMMP and RPF, including the preparation and implementation of the appropriate RAP for compensation, resettlement and rehabilitation, in accordance with the RPF, all in form and substance satisfactory to the Association;

(b) not amend or waive, or permit to be amended or waived, the ESMMP, RPF, or RAP or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project; and

(c) ensure that: (i) all measures necessary for the carrying out of the ESMMP, RPF and RAP are taken in a timely manner; and (ii) progress reports referred to in Section B of this Schedule shall include adequate information on monitoring of the measures defined in the ESMMP, RPF and RAP.
SCHEDULE 2

Performance Indicators

Parts A, B, and D.2 of the Project

Output indicators

2. The rehabilitation and expansion of the Asmara system completed by March 2008.
3. Contracts for the rural electrification components signed by February 2005.
6. Management information system installed and staff trained in its use by April 2006.
7. EEC’s accounts separated into rural and urban businesses by June 2005.
8. EEC completed a study on the strengthening of its corporate planning function by August 2005.
9. EEC completed a study on its institutional strengthening and implemented key recommendations by June 30, 2005.

Outcome Indicators

1. Voltage in the Asmara power system do not exceed +10% by midterm and +5% by Project end of Project.
2. Network losses in the Asmara system are reduced from current 18% to 13% by mid-term and to 7% by end of Project.
3. Unplanned power supply interruptions in the Asmara power system are reduced by 35% by mid-term and 90% by end of Project.
4. Total number of consumers connected to electricity supply in Asmara increases to 75,000 by mid-term and to 80,000 by end of Project.
5. EEC maintains up-to-date data on new consumers and electricity sold by category, power interruptions, and losses for the Asmara system.

6. Electricity supply extended to about 80 small towns and villages by end of 2007.

7. EEC maintains up-to-date data on number of consumers and electricity sold by category on new rural connections.

8. EEC’s management and Board timely obtain up-to-date relevant information for decision making by mid-2006.

9. EEC maintains separate financial statements for its rural and urban businesses.

10. EEC has structured and staffed its corporate planning function and it is functional by end of 2005.