Project Agreement

(Electricity Supply Accountability and Reliability Improvement Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

OPEN JOINT STOCK COMPANY "SEVERELECTRO"

Dated April 7, 2015
CREDIT NUMBER 5515-KG
GRANT NUMBER H972-KG

PROJECT AGREEMENT

Agreement dated April 1, 2015, entered into between the INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and the OPEN JOINT STOCK COMPANY "SEVERELECTRO" ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between the Kyrgyz Republic ("Recipient") and the Association. The Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the personnel, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III — TERMINATION

3.01. For purposes of Section 8.05(c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity’s Representative is the General Director.
4.02. The Association's Address is:

International Development Association
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391

Washington, D.C.

4.03. The Project Implementing Entity's Address is:

OJSC Severelectro
Chkalova 3, Alamedin
1 Lebedinoyka
Chuy Province
Kyrgyz Republic

Facsimile: +99631233393

AGREED at Bishkek, Kyrgyz Republic, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Jean-Michel Haggi

Title: Country Manager

OPEN JOINT STOCK COMPANY "SEVERELECTRO"

By

Authorized Representative

Name: Dzigare Eshimbekov

Title: Director General
SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall be responsible for the day-to-day implementation, including procurement and financial management of the Project.

2. The Project Implementing Entity shall maintain the PIU at all times during Project implementation, with terms of reference and resources satisfactory to the Association.

3. The Project Implementing Entity shall duly perform all of its obligations under the Operational Manual. The Project Implementing Entity shall not amend, waive, or permit to be amended or waived, the Operational Manual or any of the provisions thereof, except with the prior written agreement of the Association.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Project Implementing Entity shall enter into Subsidiary Agreement with the Recipient under terms and conditions acceptable to the Association.

2. The Project Implementing Entity shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Project Implementing Entity shall:

   (a) carry out the Project in accordance with the Environmental Management Plans (the “EMPs”); and

   (b) ensure, jointly with the Recipient, that the Resettlement Action Plan (“RAP”) and EMPs are not amended, suspended, waived, or abrogated, as the case may be, without the prior agreement of the Association.
2. The Project Implementing Entity shall, jointly with the Recipient:

(a) take all necessary measures to minimize, to the extent possible, any loss to affected persons of shelter, productive assets or access to productive assets or means of livelihood, temporarily or permanently; and

(b) take all measures for implementation of the RAP, prior to commencing any works under Part I the Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators acceptable to the Association. Each such Project Report shall cover the period of six months commencing January 1 and July 1 of each year, and shall be furnished to the Recipient not later than two weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

2. The Project Implementing Entity shall provide to the Recipient not later than four months after the Closing Date, for incorporation in the report referred to in Section 4.08(c) of the General Conditions, all such information as the Recipient or the Association shall reasonably request for the purposes of such Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have the Financial Statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of the Financial Statements shall cover the period of one fiscal year of the Project Implementing Entity. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.
Section III. **Procurement**

All goods, works and services required for the Project to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.

Section IV. **Financial Covenants**

1. The Project Implementing Entity shall also have its financial statements audited by independent auditors acceptable to the Association. Such audit of the financial statements of the Project Implementing Entity shall be conducted annually starting with the fiscal year of 2018 and onward. The Project Implementing Entity shall ensure that the audited financial statements for each period shall be: (a) furnished to the Recipient and the Association not later than six (6) months after the end of the period; and (b) made publicly available in a timely fashion and in a manner acceptable to the Association.

2. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall maintain a ratio of current assets to current liabilities of not less than one (1).

(b) Before September 1 in each of its fiscal years, the Project Implementing Entity shall, on the basis of forecasts prepared by the Project Implementing Entity and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the following fiscal year and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (a) for the Recipient's fiscal years covered by such review, the Project Implementing Entity shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

(i) The term “current assets” means cash, all assets 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.

(ii) 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.
(iii) 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.

(iv) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Recipient, 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.

3. (a) Except as the Association shall otherwise agree, the Project Implementing Entity shall not incur any debt, unless the net revenues of the Project Implementing Entity for the fiscal year immediately preceding the date of such incurrence or for a later twelve-month period ended prior to the date of such incurrence, whichever is the greater, shall be at least one and two tenths (1.2) times the estimated maximum debt service requirements of the Project Implementing Entity for any succeeding fiscal year on all debt of the Project Implementing Entity, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term “debt” means any indebtedness of the Project Implementing Entity 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 adjusted to take account of the Project Implementing Entity’s rates in effect at the time of the incurrence of debt even though they were not in effect during the twelve-month period to which such revenues relate 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, 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) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Recipient, 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.