

**CONFORMED COPY**

**CREDIT NUMBER 4356-GH**

# **Project Agreement**

**(Energy Development and Access Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**ELECTRICITY COMPANY OF GHANA LIMITED**

**Dated August 8, 2007**

**PROJECT AGREEMENT**

AGREEMENT (“Project Agreement”) dated August 8, 2007, entered into between the INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and the ELECTRICITY COMPANY OF GHANA LIMITED (“Project Implementing Entity”) in connection with the Financing Agreement of same date between the Republic of Ghana (“Recipient”) and the Association (“Financing Agreement”) and in connection with the Co-financing Agreement between the Recipient and the Association for the Co-financing from the ACGF. 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 the Project 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 and the Program. To this end, the Project Implementing Entity shall carry out Parts A.2, B.1, B.2 and C.1 (a) of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the counterpart funds, facilities, services and other resources required for its Respective Part of 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 its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III — REPRESENTATIVE; ADDRESSES**

3.01. The Project Implementing Entity's Representative is its Managing Director or such other person or persons as the Managing Director shall designate in writing.

3.02. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Managing Director  
Electricity Company of Ghana Limited  
P.O. Box GP521  
Accra, Ghana

Facsimile:

233-21-676761 or  
233-21-676757

AGREED at Accra, Republic of Ghana, as of the day and year first above written.

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By /s/ Mats Karlsson**

**Authorized Representative**

**ELECTRICITY COMPANY OF GHANA LIMITED**

**By /s/ Jude Adu-Amankwa**

**Authorized Representative**

## SCHEDULE

### Execution of the Project

#### Section I. Implementation Arrangements

##### B. **Subsidiary Agreement**

1. To facilitate the carrying out of its Respective Part of the Project and the transfer of part of the proceeds of the Financing and the Co-financing from the ACGF by the Recipient to the Project Implementing Entity, the Project Implementing Entity shall enter into a Subsidiary Agreement with the Recipient, under terms and conditions acceptable to the Association, which shall include the relevant terms and conditions set out in Section I.A of Schedule 2 to the Financing Agreement and in Section I.A. of Schedule 2 to the Co-financing Agreement for the Co-financing from the ACGF.
2. The Project Implementing Entity shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Project Implementing Entity and the Association and to accomplish the purposes of the Financing and the relevant Co-financing from the ACGF. 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. In case of any conflict between the Subsidiary Agreement and this Agreement, this Agreement shall prevail.

##### B. **Project Coordination**

The Project Implementing Entity shall coordinate the implementation of its Respective Part of the Project with MOE, REA (upon its establishment), VRA, ARB Apex Bank, EC, EPA, PURC and MOFEP through the Project Steering Committee.

##### C. **Project Implementation Plan**

1. The Project Implementing Entity shall adopt a Project Implementation Plan, in form and substance satisfactory to the Association, containing detailed arrangements and procedures for: (i) institutional coordination and day-to-day execution of its Respective Part of the Project; (ii) disbursement and financial management; (iii) procurement; (iv) environmental and social safeguards management; (v) monitoring, evaluation, reporting and communication; and (vi) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for its Respective Part of the Project.
2. The Project Implementing Entity shall implement its Respective Part of the Project in accordance with the guidelines, procedures, and other specifications set forth in the Project Implementation Plan and shall not amend or waive any provision of the aforementioned plan without prior approval in writing by the Recipient and the Association.

**D. Annual Work Plans and Budgets**

1. Not later than September 30 of each year during the implementation of the Project, the Project Implementing Entity shall prepare and furnish to the Recipient for inclusion in the Annual Work Plan and Budget, its annual work plan and budget containing all eligible activities and expenditures under its Respective Part of the Project planned for the following Fiscal Year, including a specification of the source or sources of financing for each contract for expenditures eligible for financing from each such source and the percentage of financing of each contract from each such source.
2. The Project Implementing Entity shall not make or allow to be made any material change to the approved Annual Work Plan and Budget without prior approval in writing by the Recipient and the Association.

**E. Environmental and Social Safeguard Measures**

1. The Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Environmental and Social Safeguard Instruments and the Resettlement Policy Framework and shall, prior to carrying out any construction, rehabilitation and maintenance activities under its Respective Part of the Project:
  - (a) prepare, disclose and implement any necessary Resettlement Action Plans in accordance with the RPF, and in a manner satisfactory to the Association; and
  - (b) prepare and disclose any necessary Environmental Impact Assessments, prepare, disclose and implement any necessary Environmental Management Plans, and obtain and maintain in full force and effect at all times during the implementation of the Project any necessary EPA approvals and permits, in accordance with the Environmental and Social Safeguard Instruments, and in a manner satisfactory to the Association.
2. Without limitation upon the provision of paragraph 1 of this Part E, the Project Implementing Entity shall, through the “Sector Specific Guidelines for Environmental Impact Assessments” of EPA:
  - (a) ensure that EIAs prepared under its Respective Part of the Project assess the adequacy of the Recipient’s applicable legal and institutional framework, including applicable international environmental agreements, and ensure that its Respective Part of the Project is implemented in compliance with all applicable legal obligations, including international obligations; and
  - (b) ensure the full and meaningful disclosure of, and conduct consultations and public hearings on, the EIAs, EMPs, RAPs and other relevant documents prepared in accordance with paragraph 1 of this Part E, in accessible places and in a form, manner and language understandable to stakeholders and any Affected Persons.

3. The Project Implementing Entity shall not amend or waive, or permit to be amended or waived, the Environmental and Social Safeguard Instruments, the RPF, RAPs or EMPs, or any provision thereof, without prior approval in writing by the Association.
4. The Project Implementing Entity shall ensure that any inconsistency or ambiguity that may arise in its interpretation or application of any of the documents comprising the Environmental and Social Safeguard Instruments shall be resolved in favor of the more stringent standard.
5. The Project Implementing Entity shall ensure that: (i) all measures for implementing the Environmental and Social Safeguard Instruments, the RPF, RAPs and EMPs are taken in a timely manner; (ii) the Association is furnished with information on the implementation of the said measures through the Project Reports referred to in Section II.A of this Schedule, and through annual review reports prepared by EPA and furnished to the Association not later than June 30 of each year during the implementation of the Project; and (iii) any shortcomings identified in the carrying out of the said measures which may, in the opinion of EPA and/or the Association, materially or adversely affect the implementation of the Project, are promptly remedied taking into account the Association's views on the matter.

## **Section II. Project Monitoring, Reporting and Evaluation**

### **A. Project Reports**

1. (a) The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than one month after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
  - (i) annual distribution losses (ECG energy sent out minus energy billed divided by energy sent out);
  - (ii) annual average hours of unplanned distribution line outage per consumer;
  - (iii) national household electrification rate;
  - (iv) ECG's Performance Verification Index (PVI) ( $PVI (\%) = (\text{Total revenue collected in the year} * 100) \text{ divided by } (\text{Total GWh bought in the year} * \text{Annual Average End User Tariff})$ );
  - (v) ECG's annual accounts receivable (excluding MDAs and the Ghana Water and Company Ltd.);

- (vi) ECG's revenue collection rate (% of sales revenue collected);
  - (vii) the ratio of ECG's revenue over its cost; and
  - (viii) number of new consumers connected through grid in ECG Project areas.
2. The Project Implementing Entity shall provide to the Recipient not later than three 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.
  3. On or about the date thirty (30) months after the Effective Date, the Project Implementing Entity shall undertake in conjunction with the Recipient, the Association, and the Co-financiers a comprehensive mid-term review of the Project during which it shall exchange views generally on all matters relating to the progress of the Project and the performance by the Project Implementing Entity of its obligations under this Agreement, having regard to the performance indicators referred to in paragraph 1 (b) of this Part A.

**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. Without limitation on the provisions of Part A of this Section, the Project Implementing Entity shall prepare and furnish to the Association as part of the Project Report, not later than one month after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Project Implementing Entity shall have its 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 these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.

**Section III. Procurement**

All goods, works and services required for the Project Implementing Entity's Respective Part of the Project and 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. Other Undertakings****A. Appointment of Financial Auditors**

The Project Implementing Entity shall, not later than six months after the Effective Date, appoint the independent auditors referred to in Section 4.09(b) of the General Conditions, in accordance with the provisions of Section III of this Schedule.

**B. ECG Management Support Services**

Not later than October 31, 2008, the Project Implementing Entity shall appoint consultants, with qualifications and terms of reference acceptable to the Association, to provide management support services to ECG.

**C. ECG Performance Contract**

Not later than December 31 of each year during the implementation of the Project, commencing not later than December 31, 2008, the Project Implementing Entity shall enter into a performance contract with the Recipient, on terms and conditions acceptable to the Association.

**D. Bulk Power Supply Contract**

Not later than December 31, 2008, the Project Implementing Entity will enter into a bulk power supply contract with VRA, on terms and conditions acceptable to the Association.

**E. Electricity Tariff Adjustment**

The Project Implementing Entity shall apply to PURC for adjustments to the bulk supply and end user electricity tariffs to achieve full cost recovery, in accordance with the Recipient's action plan referred to in Section V.C of Schedule 2 to the Financing Agreement.

**F. Current Ratio**

1. Except as the Association shall otherwise agree, the Project Implementing Entity shall maintain a ratio of current assets divided by current liabilities of not less than 1.2.
2. Not later than January 31 in each year, 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 paragraph (1) of this Part F in respect of such year and the following fiscal year and shall furnish to the Association the results of such review upon its completion.
3. If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (1) of this Part F for the Project Implementing Entity'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.

4. For the purposes of this Section:

- (a) 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.
- (b) 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.
- (c) 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.
- (d) Whenever for the purposes of this Section it shall be necessary to value, in terms of Cedi, 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.

**G. Debt Ratio**

- 1. Except as the Association shall otherwise agree, the Project Implementing Entity shall not incur any new debt, unless the Project Implementing Entity shall produce for its following fiscal year a reasonable forecast of net revenues equal to at least 1.3 times the estimated debt service requirements of the Project Implementing Entity for such fiscal year.

For the purposes of this Section:

- (a) 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.
- (b) 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.
- (c) Whenever, for the purposes of this Section, it shall be necessary to value, in terms of Cedi, 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.

- (d) The term “reasonable forecast” means a forecast prepared by the Project Implementing Entity not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and the Project Implementing Entity accept as reasonable and as to which the Association has notified the Project Implementing Entity 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 the Project Implementing Entity.
- (e) The term “net revenues” means the difference between:
  - (i) the sum of revenues from all sources related to operations and net non-operating income between that fiscal year and the next fiscal year; and
  - (ii) the sum of all expenses related to operations including administration, 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.
- (f) The term “net non-operating income” means the difference between:
  - (i) revenues from all sources other than those related to operations; and
  - (ii) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.
- (g) 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.