

CONFORMED COPY

GRANT NUMBER H490 RY

Project Agreement

(Rural Energy Access Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

GENERAL AUTHORITY FOR RURAL ELECTRICITY

Dated July 10, 2009

GRANT NUMBER H490 RY

PROJECT AGREEMENT

Agreement dated July 10, 2009, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") and the GENERAL AUTHORITY FOR RURAL ELECTRICITY ("Project Implementing Entity") ("Project Agreement") in connection with the Financing Agreement ("Financing Agreement") of same date between the REPUBLIC OF YEMEN ("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 funds, 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 - REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity's Representative is its Executive Director.
- 3.02. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423(MCI)

1-202-477-6391

3.03. The Project Implementing Entity's Address is:

General Authority for Rural Electricity
Ammran Street, Alhasaba
Sana'a
Republic of Yemen

Facsimile:

9671 328 642

AGREED at Washington, District of Columbia, United States of America, as of
the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shamshad Akhtar

Authorized Representative

GENERAL AUTHORITY FOR RURAL ELECTRICITY

By /s/ Abdulwahab Abdulla Al-Hajjri

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project Implementing Entity shall carry out the Project in accordance with the Manual of Procedures, the ESIA, the ESMP and the RPF. Except as the Association shall otherwise agree, the Project Implementing Entity may not amend or waive any provision of the Manual of Procedures the ESIA, the ESMP and/or the RPF if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. The Project Implementing Entity shall be assisted by the PMU in carrying out the Project, and for that purpose, shall maintain the PMU, with professional staff in adequate numbers whose qualifications, experience and terms of reference shall be acceptable to the Association. The PMU shall be responsible for managing all procurement, financial management, environmental management and monitoring and evaluation of the Project.

3. The Project Implementing Entity shall, prior to the construction of the distribution network facilities to the respective RESP enter into arrangements satisfactory to the Association, which shall include that: (a) the value of the respective facilities shall be converted onto a sub-loan with an interest rate of three percent and repayment period of thirty (30) years including a grace period of seven (7) years; and (b) the respective eligible RESP shall have its financial statements 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 respective eligible RESP. The audited financial statements for each period shall, through the Project Implementing Entity, be furnished to the Association not later than six (6) months after the end of the period.

B. Anti-Corruption

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

C. Safeguards

1. The Project Implementing Entity shall ensure that remedial measures are taken during the implementation and operation of the Project to offset or reduce adverse environmental and social impacts in accordance with the findings and provisions set forth in the ESIA and the ESMP.

2. The Project Implementing Entity shall ensure that all land acquisition required for the purposes of carrying out activities under the Project, and activities related to the resettlement of Project affected people in connection with such activities, shall be completed prior to commencing the carrying out of such activities, and in accordance with the provisions set forth in the RPF.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 agreed with the Association. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Recipient not later two (2) 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.

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 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 or any other period agreed upon with the Association. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

3. Except as the Association shall otherwise agree, the Project Implementing Entity shall:

(a) 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 1.5 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) produce for each of its fiscal years after its fiscal year ending on the second year of its operation, total operating revenues equivalent to not less than its total operating expenses.

(c) before November 1 in each of its fiscal years, 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 (b) in respect of such year and the next following fiscal year and shall furnish to the Association the results of such review upon its completion. If any such review shows that the Project Implementing Entity would not meet the requirements set forth in paragraph (b) 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.

(d) ensure that the respective RESP shall:

- (i) not incur any debt, unless the net revenues of the respective RESP 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 1.5 times the estimated maximum debt service requirements of the respective RESP for any succeeding fiscal year on all debt of the respective RESP, including the debt to be incurred;
- (ii) as of the sixth fiscal year of its operation, produce for each of its fiscal years thereafter, total operating revenues equivalent to not less than its total operating expenses.
- (iii) maintain accounts receivable position not exceeding three months of sales equivalent of the respective RESP at the end of the twelve-month reporting period;
- (iv) maintain a system loss at no more than 15% for the twelve-month reporting period.
- (v) before November 1 in each of its fiscal years, on the basis of forecasts prepared by the respective RESP and satisfactory to the Association, review whether it would meet the requirements set forth in this paragraph (d) in respect of such year and the next following fiscal year and shall furnish to the Association, through the Project Implementing Entity, the results of such review upon its completion. If any such review shows that the

respective RESP would not meet the requirements set forth in this paragraph (d) for the respective RESP's fiscal years covered by such review, the respective RESP 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 Section 3 above:

(a) The term "debt" means any indebtedness of the Project Implementing Entity or the respective RESP as the case may be 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: (i) 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 (ii) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(c) The term "net revenues" means the difference between:

- (i) the revenues from all sources related to operations as well as revenues from all sources other than those related to operations; and
- (ii) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, bad debt, other non-cash operating charges and interest and other charges on debt.

(d) 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.

(e) 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, on the basis of a rate of exchange acceptable to the Association.

(f) The term “total operating revenues” means revenues from all sources related to operations.

(i) The term “total operating expenses” means all expenses related to operations, including administration, adequate maintenance, adequate provision for bad debts, and provision for depreciation on a straight-line basis at a rate of not less than 3% per annum of the average current gross value of the Project Implementing Entity's fixed assets in operation, or other basis acceptable to the Association, but excluding interest, other charges on debt, taxes and payments in lieu of taxes.

(j) The average current gross value of the Project Implementing Entity's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Project Implementing Entity's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Association.

(k) The term “accounts receivable” means amount billed to consumers that is remaining outstanding at the end of the twelve-month reporting period.

(l) The term “system loss” means the difference between volume of energy billed and volume of energy purchased as a percentage of volume of energy billed.

Section III. Procurement

All goods, works and services required for 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.