

CONFORMED COPY

CREDIT NUMBER 3682-TJ

Project Agreement

(Pamir Private Power Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PAMIR ENERGY COMPANY

Dated July 3, 2002

CREDIT NUMBER 3682-TJ

PROJECT AGREEMENT

AGREEMENT, dated July 3, 2002, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and PAMIR ENERGY COMPANY (PamirEnergy).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Republic of Tajikistan (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to seven million nine

hundred thousand Special Drawing Rights (SDR 7,900,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that PamirEnergy agree to undertake such obligations toward the Association as are set forth in this Agreement;

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

WHEREAS PamirEnergy, in consideration of the Association's entering into the Development Credit 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 Credit 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 the Project

Section 2.01. (a) PamirEnergy declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental 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 PamirEnergy shall otherwise agree, PamirEnergy shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) PamirEnergy 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.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, PamirEnergy 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 PamirEnergy, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with PamirEnergy on said plan.

Section 2.04. PamirEnergy shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, PamirEnergy shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) PamirEnergy shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) PamirEnergy shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by PamirEnergy of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of PamirEnergy

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

Section 3.02. PamirEnergy 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 and technical practices.

Section 3.03. PamirEnergy 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) PamirEnergy shall 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 the Project.

(b) PamirEnergy 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 the PamirEnergy's progress reporting obligations set out in paragraph 1 of Schedule 2 to this Agreement, the PamirEnergy shall prepare and furnish to the Association a Financial Monitoring Report (FMR) in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, 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 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 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 (a) Except as the Association shall otherwise agree, PamirEnergy shall ensure that:

for maximum (i) for each financial year beginning 2002, the net revenues of PamirEnergy financial year in question shall be at least 1.2 times the estimated debt service requirements of PamirEnergy; and

- (ii) an amount equal to six months' projected debt service is maintained at all times in an escrow account in a commercial bank in Tajikistan, with the authorization that the account holding bank would automatically pay to the Borrower the debt service amounts in the event PamirEnergy delays its scheduled payment of debt service amounts by more than ten (10) days.

(b) For the purposes of this section:

- (i) The term "debt" means any indebtedness of PamirEnergy 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; (b) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into; and (c) financial liabilities incurred by PamirEnergy as a lessee under finance leasing agreements.

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

(A) the sum of revenues from all sources related to operations, after making adequate provisions for uncollectible debts; and

(B) the sum of all expenses related to operations including

administration,
taxes, but
non-cash operating charges

adequate maintenance, taxes and payments in lieu of
excluding provision for depreciation, other
and interest and other charges on debt.

(C) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) and interest and other charges on debt, including lease payments under finance leases if any.

(D) The term “projected debt service” means the debt service due within the following six months from the date of consideration.

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

Section 4.04 (a) Except as the Association shall otherwise agree, PamirEnergy shall, with respect to electricity supplied to consumers other than budgetary organizations, ensure that:

- (i) for each financial year beginning 2002, the accounts receivable as well as the Uncollected Amounts will gradually be reduced;
- (ii) beginning with 2006 and thereafter, the level of accounts receivable is no more than two months’ Average Billing;
- (iii) the level of Uncollected Amounts are no more than 10% of average billing by 2006; and no more than 5% of average billing by 2010; and
- (iv) by December 31, 2002, furnish to the Association, a program of improvement in collection satisfactory to the Association, which details the measures and actions to be taken by PamirEnergy in order to meet the targets set in (ii) and (iii) above.

(b) For the purposes of this section:

- (i) “Average Billing” means the average of the bills sent out to consumers from the beginning of the calendar year to the month preceding the

current month; and

- (ii) “Uncollected Amounts” means amounts that have remained unpaid for more than 12 months.

Section 4.05. PamirEnergy should furnish to the Association, before December 31 of each year, annual business plans, whose form and content are satisfactory to the Association, and includes analysis of actual business performance against planned performance for previous year, projected performance for current year, and forecasts for four additional years.

Section 4.06. PamirEnergy shall obtain the Association’s approval for any further capital expenditures, other than those for the Project, after the date of this Agreement.

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 Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of PamirEnergy thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify PamirEnergy 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 or 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, telegram, cable, telex or radiogram 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. 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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For PamirEnergy

3 Hakimzoda Str.,
Dushanbe, Tajikistan

Facsimile:

992-372-24-65-65

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 PamirEnergy, or by PamirEnergy on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Chairman of PamirEnergy or such other person or persons as its Chairman shall designate in writing, and PamirEnergy 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 Almaty, Republic of Kazakhstan, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Dennis de Tray
Authorized Representative

PAMIR ENERGY COMPANY

By: /s/ Matthew Scanlon
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Prequalification

Bidders for the supply of cement shall be prequalified in accordance with the provisions of paragraph 2.65 of the Guidelines.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$3,200,000 equivalent, and goods, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$1,600,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

3. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of

all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract under Parts B and C.2 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract under Parts C.1 and C.3 of this Section, the following procedures shall apply:

- (i) prior to execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 2

Implementation Program

1. PamirEnergy shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2003, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the

Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by December 31, 2003, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. PamirEnergy shall take or cause to be taken, all measures necessary for the carrying out of the EMMP in a timely manner.

3. By October 31, 2002, PamirEnergy shall have signed all contracts under Categories (1) and (2)(b) of Schedule 1 to the Development Credit Agreement.

4. By June 30, 2003, PamirEnergy shall have established a satisfactory financial management system.

