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EEPCo Project Agreement

(Electricity Access (Rural) Expansion Phase II Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ETHIOPIAN ELECTRIC POWER CORPORATION

Dated July 13, 2007

PROJECT AGREEMENT

Agreement dated July 13, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and ETHIOPIAN ELECTRIC POWER CORPORATION (“Project Implementing Entity”) (“Project Agreement”) in connection with the Financing Agreement of same date between the Federal Democratic Republic of Ethiopia (“Recipient”) and the Association (“Financing Agreement”). 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. To this end, the Project Implementing Entity shall carry out Parts 1 and 3(a) of 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 such Parts 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 Parts 1 and 3(a) of 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 20 years after the date of this Agreement.

ARTICLE IV — REPRESENTATIVE; ADDRESSES

4.01. The Project Implementing Entity's Representative is its General Manager.

4.02. The Association's Address is:

International Development Association
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

4.03. The Project Implementing Entity's Address is:

Ethiopian Electric Power Corporation
P.O. Box 1233
Addis Ababa
Ethiopia

Cable:

Telex:

Facsimile:

21023

251-111-552345

AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ishac Diwan

Authorized Representative

ETHIOPIAN ELECTRIC POWER CORPORATION

By: /s/ Meheret Debebe

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional and Other Arrangements

1. The Project Implementing Entity shall, at all times during Project implementation, maintain the UEAP Office, with competent staff in adequate numbers, qualifications and experience satisfactory to the Association (including monitoring and evaluation, procurement, accounting and environmental specialists), with responsibility for implementing the grid-based rural electrification program under Parts 1 and 3(a) of the Project.
2. The Project Implementing Entity shall engage, and thereafter maintain during the implementation of the Project, a Project supervision engineering firm, under terms of reference acceptable to the Association.

B. Environmental and Social Management Framework (ESMF) and Resettlement Policy Framework (RPF)

The Project Implementing Entity shall, in accordance with Section I.D of Schedule 2 to the Financing Agreement, ensure that Parts 1 and 3(a) of the Project are implemented in accordance with the provisions of the ESMF and RPF, and carry out any EMP and RAP, all in a manner and substance satisfactory to the Association.

C. Anti-Corruption

The Project Implementing Entity shall ensure that Parts 1 and 3(a) of the Project are carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- (1) The Project Implementing Entity shall monitor and evaluate the progress of Parts 1 and 3(a) of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 (b) of the General

Conditions and on the basis of the indicators set forth below in subparagraph (2) of this paragraph. Each such Project Report shall cover the period of six months, and shall be furnished to the Recipient not later than one month after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association.

- (2) The performance indicators referred to above in sub-paragraph (1) consist of the following: (i) 113,000 customers connected in rural towns and villages; (ii) annual consumption of 15 GWh or above in the domestic (residential) market; (iii) annual consumption of 33 GWh or above in the commercial and industrial markets; (iv) 265 rural towns and villages electrified; (v) 280,000 or more rural residential customers in which monetary incentives to connect were offered; and (vi) 400,000 customers or more CFLs distributed and adopted under alternative subsidy programs; all of the above within a three year period.

B. Financial Management, Financial Reports; 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 Parts 1 and 3(a) of 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. The audited financial statements for each period shall be furnished to the Association not later than six months after the end of the period.
3. (a) Except as the Association shall otherwise agree, net revenues of the Project Implementing Entity for any fiscal year shall be equal to or greater than the sum of its debt service requirements, working capital requirements, dividends and investments to be financed out of the revenues of the Project Implementing Entity. To this end, the Project Implementing Entity shall not incur any debt, unless the projected net revenues of the Project Implementing Entity shall be equal to or greater than the sum of its projected debt service requirements, working capital requirements, dividends and investments to be financed out of the revenues of the Project Implementing Entity, for each succeeding fiscal year.

- (b) To this end, the Project Implementing Entity shall prepare pro forma financial statements to be used for making the determinations set out under (a) above.
- (c) “Investments to be financed out of the revenues of the Project Implementing Entity” does not include investments to be financed by the Project Implementing Entity out of grants, equity contributions, or other similar sources.
- (d) 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 is it 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, 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 repayment (including sinking fund payments, if any) of, and interest and other charges on, debt (after taking account of applicable grace periods, debt cancellations and reschedulings);
- (vi) the term “working capital requirements” means the difference between current assets excluding cash and current liabilities at the end of each fiscal year. To this end: (A) the term “current assets excluding cash” means all assets other than cash which could in the ordinary course of business be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and prepaid expenses properly chargeable to operating expenses within the next fiscal year; and (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; and
- (vii) 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.

Section III. Procurement

All goods and services required for Parts 1 and 3(a) of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.