
MEMORANDUM OF UNDERSTANDING

FOR

**THE DEVELOPMENT OF
CENTRAL ASIA SOUTH ASIA
REGIONAL ELECTRICITY MARKET**

This Memorandum of Understanding ("MOU") for the Development of a Central Asia-South Asia Regional Electricity Market ("CASAREM") is entered into by the Government of the Islamic Republic of Afghanistan, the Government of the Kyrgyz Republic, the Government of the Islamic Republic of Pakistan, and the Government of the Republic of Tajikistan. Hereinafter, each Government is referred to as a Party to this MOU; and the Governments collectively are referred to as the Parties.

PREAMBLE

WHEREAS the Parties, having met in Islamabad, Pakistan in May 2006, together with international financial institutions ("IFIs"), bilateral agencies, private investors and other experts and advisors, have resolved to engage, collectively and individually, in activities necessary to enable the development of CASAREM; and

WHEREAS the Parties have established a Multi-Country Working Group ("MCWG") with Terms of Reference ("TORs") requiring the MCWG to carry out certain functions on behalf of the Parties;

WHEREAS the Parties have committed to evaluate the technical and economic viability of certain trade arrangements and investments; and

WHEREAS the Parties have committed to evaluate the financial, legal, institutional, and risk mitigation issues that may be involved; and

WHEREAS the Parties believe that there is sufficient reason now to commit additional time and resources to the further development of CASAREM;

NOW, THEREFOR, the Parties agree as follows:

1.0 Scope of Agreement and Understandings

- 1.1 CASAREM, in its initial stage, will involve the establishment of a transmission system and corresponding trading arrangements for the transfer of approximately 1000 MW of power from Tajikistan and the Kyrgyz Republic to Pakistan via Afghanistan. These transmission and trading arrangements are collectively referred to as the Project.
- 1.2 Pakistan hereby re-confirms its interest, at a later stage, to import additional electricity from Central Asia.
- 1.3 The Parties have agreed, subject to confirmation by the Techno-Economic Assessment study (referred to in paragraph 1.4), that (a) the transmission line through Afghanistan, should be routed via the Pul-e-Khumri and Kabul areas to Pakistan, and (b) have the facility to supply power to the Kabul area. To the extent that an additional line may be needed for purposes of risk mitigation, other additional routes would be analyzed.

- 1.4 The Parties have agreed that two critical studies -- regarding a Techno-Economic Assessment; and the Development of the Institutional, Financial, Risk Mitigation and Legal Framework -- need to be undertaken for the purposes of (a) establishing the viability of the Project, and (b) if viable, continuing the further development and implementation of the Project, ~~including moving into the commercial and financial stage.~~
- 1.5 The Parties have requested the Asian Development Bank to finance the Techno-Economic Assessment and the World Bank to arrange financing for the Institutional, Financial, Risk Mitigation and Legal Framework development. The selection and the contracting of the Consultants shall be made in consultation with the MCWG and shall follow the rules of those financing organizations, respectively.
- 1.6 The Parties agree to support the studies, which will determine whether the Project is viable, by which is meant, broadly, that it is technically and economically feasible and will benefit all Parties, and that arrangements can be made to reasonably mitigate the major risks.
- 1.7 Support for the studies, as referred to in Section 1.6, means that the Parties will:
- i. provide financial and other support, as may be required, for the operation of the MCWG and the Project Development Unit ("PDU") that is to be established to facilitate the development of the Project;
 - ii. ensure that the MCWG and PDU (a) have the responsibility to provide, to the Consultants who will carry out the studies, the necessary support, such as, *inter alia*, coordination, the provision of data and analyses, reports and other documents to complete the studies expeditiously; and (b) act as the counterparties to the Consultants in their respective countries;
 - iii. take such policy and other major decisions as may be necessary in a timely manner; and
 - iv. take such other reasonable steps as may be required.
- 1.8 Upon establishment that the Project is viable, each Party agrees to support the further development and implementation of the Project.
- 1.9 In the development and implementation of the Project, the Parties recognize that private sector investors/operators are important to its success. The Parties have therefore agreed to give preference to private sector participation in the Project, provided this approach is deemed feasible under the studies referred to in Section 1.4.

1.10 The Parties anticipate that the decisions to support the Project (as required in Section 1.8) will need to be taken in the May-June 2007 time frame, assuming, as expected, that the Consultants for the two studies will complete the necessary work for such decisions by that time.

~~1.11 If the Project is to proceed, given the decision taken pursuant to Section 1.8, each Party agrees to:~~

- (a) negotiate in good faith:
 - i. a subsequent Inter-Governmental Agreement among the Parties that will, *inter alia*, provide the overall framework for the Project;
 - ii. all other required agreements or contracts necessary for the financing, implementation, and long-term operation of the project;
- (b) support any additional required studies;
- (c) support the further development and implementation of the Project, as may be necessary.

1.12 The Parties have initiated the development of the Project in cooperation with the IFIs. That cooperation will continue to the extent that it is beneficial to the development of the Project and is in the interest of both the Parties and the IFIs.

1.13 The Parties acknowledge the assistance provided by several bilateral agencies for the development of the Project and look forward to receiving such assistance in the future.

1.14 The Parties agreed to create a Ministerial Council ("MC") to represent their countries officially for the purpose of, *inter alia*, taking major Project decisions. Each Party will appoint a representative from an appropriate Ministry.

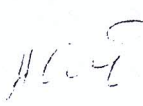
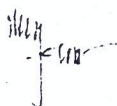
The members of the MC are:

Minister of Energy and Water of Islamic Republic of Afghanistan

Minister of Industry, Trade and Tourism of Kyrgyz Republic

Minister of Water and Power of Islamic Republic of Pakistan

Minister of Energy of the Republic of Tajikistan



2.0 Meetings and Decision Making Process

- 2.1 During the period when the studies are being carried out, the Parties (or those designated by the Parties) agree (a) to meet as may be necessary to coordinate and facilitate the studies, (b) to take such decisions as may be required, and (c) to make progress on next steps as will be agreed during such meetings or in any other mutually acceptable manner.
- 2.2 The Parties shall determine among themselves where each meeting shall be held, and such matters as the agenda for the meeting, and who shall chair the meeting.
- 2.3 All decisions pursuant to this MOU shall be taken by consensus.
- 2.4 Pursuant to this MOU, and in all subsequent agreements among the Parties, the Parties shall decide upon a dispute resolution mechanism suitable for the particular agreement.
- 2.5 In the event that any Party believes that this MOU needs to be amended or modified, the Parties agree to meet and discuss the proposed amendments/modifications. Such amendments/modifications shall be formalized through Protocols, which shall constitute integral parts of this MOU.

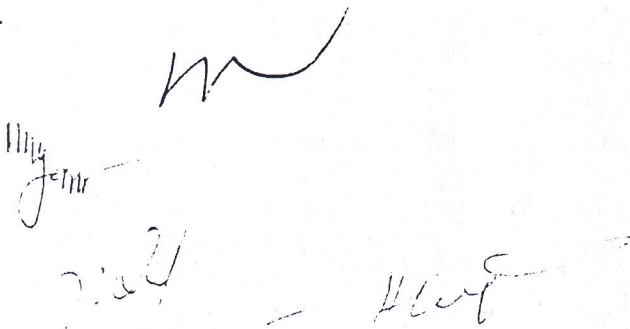
3.0 Termination of this Memorandum of Understanding

The MOU may be terminated:

- i. if any Party, on the basis of the studies or otherwise, decides not to proceed further;
- ii. if and when a subsequent agreement is negotiated among the Parties to replace this MOU.

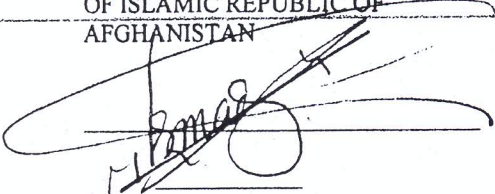
This Memorandum of Understanding is made in the Russian and English languages, with four (4) original copies, one for each of the parties. In case of any discrepancy in the texts or conflict in interpretation, the English text shall prevail.

In Witness whereof, this MOU is signed at Dushanbe, Republic of Tajikistan on October 28, 2006.



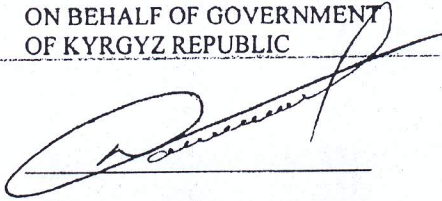
The block contains several handwritten signatures and initials. At the top is a large, stylized signature. Below it, on the left, are the initials 'M. J. M.'. In the center and right, there are more handwritten marks, including what appears to be a signature 'H. J. M.' and some other illegible scribbles.

ON BEHALF OF GOVERNMENT
OF ISLAMIC REPUBLIC OF
AFGHANISTAN



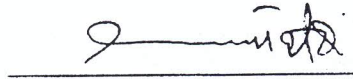
Full Name:

ON BEHALF OF GOVERNMENT
OF KYRGYZ REPUBLIC



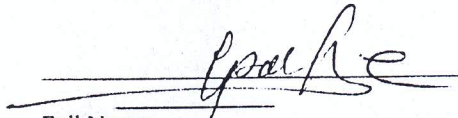
Full Name:

ON BEHALF OF GOVERNMENT
OF ISLAMIC REPUBLIC OF
PAKISTAN



Full Name:

ON BEHALF OF GOVERNMENT
OF REPUBLIC OF TAJIKISTAN



Full Name: