

CONFORMED COPY

CREDIT NUMBER 4536-HN

Financing Agreement

(Power Sector Efficiency Enhancement Project)

between

REPUBLIC OF HONDURAS

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 27, 2009

FINANCING AGREEMENT

AGREEMENT dated February 27, 2009, entered into between REPUBLIC OF HONDURAS (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this 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 General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty million two hundred thousand Special Drawing Rights (SDR 20,200,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is United States Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall: (a) carry out the fiduciary and monitoring and evaluation aspects of the Project through CPME; and (b) cause ENEE to carry out the technical implementation of the Project, all in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) ENEE's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect, in the opinion of the Association, materially and adversely the ability of ENEE to perform any of its obligations under the Subsidiary Agreement.
 - (b) Key personnel in ENEE and/or CPME shall have been removed or replaced so as to affect, in the opinion of the Association, materially and adversely the implementation of the Project.
- 4.02. The Additional Events of Acceleration consist of the following:
- (a) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.
 - (b) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs.

ARTICLE V— EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Agreement has been executed on behalf of the Recipient (through SEFIN and CPME) and ENEE.
 - (b) The Operational Manual has been adopted by the Recipient (through CPME) and ENEE.
 - (c) The PEU and the PCU have been adequately staffed, as set forth in Section I.A.2 (b) and I.A.3 (b), respectively, of Schedule 2 to this Agreement.
- 5.02. The Additional Legal Matter consists of the following, namely, that the Subsidiary Agreement has been duly authorized or ratified by the Recipient (through SEFIN and CPME) and ENEE and is legally binding upon the Recipient and ENEE in accordance with its terms.
- 5.03. Without prejudice to the provisions of the General Conditions, the Effectiveness Deadline is the date ninety (90) days after the date of this Agreement, but in no case later than eighteen (18) months after the Association's approval of the Credit which expire on July 22, 2010.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister (*Secretario*) of SEFIN.
- 6.02. The Recipient's Address is:

Secretaría de Estado en el Despacho de Finanzas
Dirección General de Crédito Público
Avenida Cervantes
Tegucigalpa, M.D.C.
Honduras, C.A.

Cable:	Telex:	Facsimile:
HACIENDA Tegucigalpa	1308 FINANZAS HO	(504) 237-4142 (504) 238-6995

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

AGREED at Tegucigalpa, Honduras, as of the day and year first above written.

REPUBLIC OF HONDURAS

By /s/ Rebeca P. Santos

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Laura Frigenti

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve ENEE's operational and financial performance, thus contributing to the sustainability of the power sector in the Recipient's territory.

The Project consists of the following parts:

Part 1: Improvement of ENEE's Commercial and Corporate Management

- A. Installation of automated meter reading ("AMR") equipment that allows remote metering of consumption and disconnection or reconnection of the clients, including: (1) completing ENEE's ongoing effort to install AMR systems for the existing consumers in the "industrial" and "high consumption" categories; and (2) extending the installation of AMR to low voltage consumers (residential and commercial) starting with customers with a monthly consumption above 400 kWh.
- B. Installation of a new automated commercial management system ("CMS"), including: (1) the acquisition and implementation of the new CMS; (2) the creation and maintenance of a constantly updated and reliable customer database; and (3) the creation of a call center.
- C. Implementation of an incident recording and management system ("IRMS"), including: (1) the acquisition and implementation of the new IRMS; (2) the creation of three distribution operation centers in the Recipient's municipalities of Tegucigalpa, San Pedro Sula and La Ceiba; and (3) the building of an installations and supply database which will include data on medium-voltage networks and on each customer's connection to the corresponding transformation station.
- D. Development of a corporate resources management information system (CRMIS) for ENEE, including specific modules for: (1) accounting and finance; (2) integrated human resources management; (3) purchases and contracts; (4) logistics; (5) asset management; (6) corporate planning; and (7) regulation.

Part 2: Rehabilitation of Distribution Networks

- A. (1) Replacement of transformers; (2) purchase of related distribution equipment; and (3) disposal of PCBs found in replaced PCB-containing transformers.
- B. Purchase of maintenance equipment, spare parts and materials for the distribution networks, mainly heavy vehicles.

Part 3: Strengthening of ENEE's Institutional Capacity and Corporate Governance

A. Strengthening of the governance in the Recipient's power sector, including specific actions agreed with the Association and set forth in the Operational Manual which are aimed at: (1) enhancing transparency, accountability and attention to ENEE's customers; (2) improving ENEE's corporate governance; and (3) strengthening the fiduciary aspects of ENEE's operations.

B. (1) Carrying out of an analysis of the long-term financial sustainability of ENEE, including but not limited to, an analysis as to the required tariff and subsidy structure to support such sustainability; and (2) the development of a strategy and business plan for a new distribution and commercialization unit.

C. Implementation of a communication, outreach and participation program, including: (1) outreach to the consumer and consumers' participation to save energy and reduce electricity thefts and illegal connections; (2) communication and transparency efforts to renew communication procedures establishing quality standards and an information system that will enable users to monitor and provide feedback on ENEE's performance; and (3) institutional strengthening through the provision of training and technical assistance to improve coordination among all areas in ENEE, both central and regional, in the area of customer service.

D. (1) Project management by ENEE and the CPME, including studies and consultancies, Training, Operating Costs, acquisition of equipment and other goods needed for Project implementation, and minor office renovations/refurbishments; and (2) carrying out of monitoring and evaluation activities and audits.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall establish and maintain, throughout Project implementation, a steering committee responsible for Project oversight and coordination, comprised of representatives of SEFIN, CPME and ENEE.
2. (a) The Recipient shall cause ENEE to maintain, throughout Project implementation, an execution unit (“PEU”) with composition, functions and responsibilities acceptable to the Association, including the responsibility for the technical implementation of the Project, in coordination with CPME and the relevant departments of ENEE.

(b) The PEU shall be headed by a Project coordinator and assisted by staff in adequate numbers, including an engineer, a financial management/procurement *liaison* with CPME and an administrative assistant, all with qualifications and experience satisfactory to the Association.
3. (a) The Recipient, through CPME, shall maintain, throughout Project implementation, a coordination unit (“PCU”) with composition, functions and responsibilities acceptable to the Association, including the responsibility for the fiduciary (*i.e.*, financial management and procurement) and monitoring and evaluation aspects of the Project, in coordination with ENEE.

(b) The PCU shall be staffed with an energy sector specialist, a procurement specialist, a financial management specialist and a monitoring and evaluation specialist, all with qualifications and experience satisfactory to the Association.
4. The Recipient undertakes that, unless the Association may otherwise agree, the PEU and the PCU personnel shall only be hired based on professional criteria and shall only be replaced for reasons related to performance. The performance of PEU and PCU personnel shall be assessed once a year by an independent firm contracted under terms of reference satisfactory to the Association, which firm shall be hired by the Recipient no later than ninety (90) days after the Effective Date.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient (through SEFIN and CPME) shall make the proceeds of the Financing available to ENEE subject to the fiduciary arrangements referred to in paragraph (b) below, under a subsidiary agreement (“Subsidiary Agreement”) between the Recipient (through SEFIN and

CPME) and ENEE, under terms and conditions approved by the Association, which shall include:

- (a) the provision to ENEE of the funds, facilities and other resources, required to enable it to carry out the Project, including the legal transfer of the proceeds of the Credit: (i) on a loan basis for up to twenty-five million United States Dollars (\$25,000,000); and (ii) on a grant basis for the remainder, subject to the fiduciary arrangements referred to in paragraph (b) below whereby CPME manages said proceeds;
- (b) the responsibility of CPME (in coordination with ENEE) for the fiduciary (*i.e.*, financial management and procurement) and monitoring and evaluation aspects of the Project, including the obligation to: (i) ensure that all goods, works and services to be financed out of the Credit are procured in accordance with the provisions of this Agreement; (ii) ensure that adequate policies and procedures are maintained to enable it to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress of the Project and the achievement of its objective; (iii) (A) 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, resources and expenditures related to the Project; and (B) at the Association's request, have such financial statements audited by independent auditors acceptable to the Association, and promptly furnish the statements so audited to the Association; and (iv) maintain the PCU throughout Project implementation, as provided in Section I.A.3 of Schedule 2 to this Agreement;
- (c) the responsibility of ENEE (in coordination with CPME) for the technical implementation of the Project, including the obligation to: (i) carry out the Project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the Operational Manual and the provisions of the Anti-Corruption Guidelines applicable to recipients of Credit proceeds other than the Recipient; (ii) provide, as promptly as needed, its own additional resources required for the purpose, including the necessary human resources, operating expenses, office equipment for the PEU, and operation and maintenance investments for the distribution networks; (iii) provide all the necessary information and assistance to enable CPME to ensure that all goods, works and services to be financed out of the Credit are procured in accordance with the provisions of this Agreement; (iv) cooperate to maintain policies and procedures adequate to enable CPME to monitor and evaluate, in accordance with indicators acceptable to the Association, the progress of the Project and the achievement of its objective; (v) provide all necessary information to enable CPME to: (A) 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, resources and expenditures related to the Project; and (B) at the Association's request, have such financial statements audited by independent auditors acceptable to the Association, and promptly furnish the statements so audited to the Association; (vi) enable the Recipient and the Association to inspect the Project, its operations and relevant records and documents; and (vii) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; (viii) maintain the PEU throughout Project implementation, as provided in Section I.A.2 of Schedule 2 to this Agreement; and

(d) the right of the Recipient to suspend or terminate the right of ENEE to benefit from the proceeds of the subsidiary financing, or obtain a refund of any part of the amount of the subsidiary financing then withdrawn, upon ENEE's failure to perform any of its obligations under the Subsidiary Agreement.

2. The Recipient (through SEFIN and CPME) shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate, waive or fail to enforce the Subsidiary Agreement or any of its provisions.

C. Operational Manual

1. (a) The Recipient shall, and shall cause ENEE to, carry out the Project in accordance with an operational manual ("Operational Manual") satisfactory to the Association, said manual to include, inter alia:

- (i) the procedures for carrying out, monitoring and evaluation of the Project (including the procurement, disbursement, financial management, social and environmental requirements thereof);
- (ii) the composition, functions and responsibilities of the PEU and the PCU;
- (iii) the EAR;
- (iv) the indicators for Project monitoring and evaluation (the Performance Indicators); and
- (v) the plan to address governance issues and mitigate potential risks of corruption under the Project.

- (b) The Operational Manual may be amended from time to time with the prior approval of the Association. In the case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

D. Anti-Corruption

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

E. Safeguards

- 1. Without limitation to the provisions of Section I.C.1 (a) of Schedule 2 to this Agreement, the Recipient undertakes that, unless the Association shall otherwise agree:
 - (a) The Project shall be carried out in accordance with the environmental assessment report (“EAR”) for the Project, which includes, *inter alia*:
 - (i) ENEE’s plan for the replacement and handling of PCBs;
 - (ii) ENEE’s environmental guidelines for electricity distribution projects; and
 - (iii) environmental guidelines for minor works.
 - (b) No physical or economic involuntary resettlement (as interpreted in accordance with the Association’s Operational Policy 4.12 (OP 4.12)) shall take place as a consequence of Project implementation.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

- 1. The Recipient 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 Performance Indicators. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

- 1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association as part of the Project Report, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.
4. No later than ninety (90) days after the Effective Date, the Recipient shall hire external auditors to carry out the audits referred to in the preceding paragraph, based on a short list satisfactory to the Association.

Section III. Procurement

A. General

1. Goods and Works and Non-Consultant Services.

- (a) All goods, works and services (other than consultants' services) required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
- (b) Without any limitations to any other provisions set forth in this Section or in the Procurement Guidelines, the following shall expressly govern the procurement of goods, works and services (other than consultant services) under this Section:
 - (i) Contracts shall be awarded to the lowest evaluated bid in accordance with criteria set forth in the bidding documents, and without taking into account, in the evaluation, the financial cost of foreign exchange components.
 - (ii) Foreign bidders shall not, as a condition for submitting bids, be required to: (A) be registered in the Recipient's territory; (B) have a representative in the Recipient's territory; (C) be associated with suppliers or contractors of the Recipient's territory; and (D) certify that, in their country of origin, suppliers or contractors of the Recipient's territory are allowed to participate in competitive bidding procedures under equal conditions with other bidders.
 - (iii) Contracts shall not be divided for the sole purpose of reducing contract amounts.

2. Consultants' Services.

- (a) All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
- (b) Without limitation to any other provisions set forth in this Section or the Consultant Guidelines, the following shall expressly govern the procurement of consultants' services under this Section:
 - (i) foreign consultants shall be permitted to participate in the selection process even if there is availability of consultants of the Recipient's territory for the services being procured; and
 - (ii) foreign consultants shall not be required to be registered with associations of the Recipient's territory or to be associated with consulting firms of the Recipient's territory as a condition for participating in any selection process.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-Consultant Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and services (other than consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-Consultant Services. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants' services). The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Least Cost Selection
(b) Selection based on Consultants' Qualifications
(c) Quality-based Selection
(d) Selection under a Fixed Budget
(e) Single-source Selection
(f) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(g) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Procurement Audits

No later than ninety (90) days after the Effective Date, the Recipient shall hire external auditors, based on a short list satisfactory to the Association, to carry out procurement audits in accordance with the procedures set forth in the Operational Manual.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Credit (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, consultants’ services and Non-Consultant Services for Part 1 of the Project	10,900,000	100%
(2) Goods, works, consultants’ services and Non-Consultant Services for Part 2 of the Project	4,900,000	100%
(3) Goods, works, consultants’ services, Non-Consultant Services, Training and Operating Costs for Part 3 of the Project	2,400,000	100%
(4) Unallocated	2,000,000	
TOTAL AMOUNT	20,200,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$3,000,000 equivalent may be made for payments made prior to this date but on or after November 1, 2008 (but in no case more than one year before the date of this Agreement) for Eligible Expenditures.
2. The Closing Date is December 31, 2013.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15, commencing June 15, 2019 to and including December 15, 2028:	5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid.

APPENDIX

Section I. Definitions

1. “AMR” means automated meter reading.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
5. “CPME” means *Comisión Presidencial de Modernización del Estado*, the Recipient’s Presidential Commission for the Modernization of the State established by legislative decree No. 190-91 of December 11, 1991, as a collective body headed by the President of Honduras, responsible for the formulation, study and design of national policies for the reform and improvement of the Honduran State, as well as for the formulation of specialized programs and projects and for the periodic evaluation of results.
6. “CMS” means commercial management system.
7. “CRMIS” means corporate resources management information system.
8. “EAR” means the Recipient’s environmental assessment report for the Project dated October 17, 2008 and referred to in Section I.E.1 (a) of Schedule 2 to this Agreement.
9. “ENEE” means *Empresa Nacional de Energía Eléctrica*, the Recipient’s power utility created pursuant to ENEE’s Legislation, *i.e.*, the Project Implementing Entity for purposes of the General Conditions.
10. “ENEE’s Legislation” means the Recipient’s legislative decrees No. 48 of February 20, 1957 and No. 158-94 of November 26, 1994.
11. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006), with the modifications set forth in Section II of this Appendix.
12. “IRMS” means incident recording and management system.

13. “Non-Consultant Services” means services other than consultant services for: (a) the inspection, identification and replacement of PCB-containing equipment and disposal of PCBs under Part 2 of the Project; and (b) the implementation of the communication, outreach and participation program under Part 3.C of the Project.
14. “Operating Costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs (excluding communication expenses related to the implementation of the communication, outreach and participation program under Part 3.C of the Project), office administration costs, utilities, travel, per diem and supervision costs, and salaries of locally contracted employees (none of which would have been incurred absent the Project).
15. “Operational Manual” means the manual referred to in Section I.C.1 (a) of Schedule 2 to this Agreement, as such manual may be amended from time to time with the prior written consent of the Association.
16. “PCB” means polychlorinated biphenyls.
17. “PCU” means the Project Coordination Unit within CPME referred to in Section I.A.3 (a) of Schedule 2 to this Agreement.
18. “PEU” means the Project Execution Unit within ENEE referred to in Section I.A.2 (a) of Schedule 2 to this Agreement.
19. “Performance Indicators” means the indicators for Project monitoring and evaluation set forth in the Operational Manual.
20. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
21. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 12, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
22. “SEFIN” means *Secretaría de Estado en el Despacho de Finanzas*, the Borrower’s Ministry of Finance.
23. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to ENEE, subject to the fiduciary arrangements referred to therein whereby CPME will manage the funds and carry out the monitoring and evaluation of the Project.

24. “Training” means, solely as required for the Project: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training and by non-consultant training facilitators; (ii) course fees; (iii) training facility rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses not otherwise covered under this paragraph.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance*

If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (b) of Section 3.03 is hereby deleted in its entirety.
3. Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank.”

4. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”

- (b) The definition of “Project Implementing Entity” is amended and replaced in its entirety with the following text:

“Project Implementing Entity” means a legal entity (other than the Recipient or the Guarantor) which is responsible for implementing all or a part of the Project and which: (a) is a party to the Project Agreement; or (b) is not a party to the Project Agreement but is a party to an agreement (referred to in a Legal Agreement as a “Subsidiary Agreement”) whereby such party's role in implementing the Project or any part thereof is set forth. If there is more than one such entity, “Project Implementing Entity” refers separately to each such entity. For cases where clause (b) of this definition applies: the last sentence of Section 1.01 of these General Conditions shall be disregarded; the Association's obligation in Section 6.06(b)(ii) of these General Conditions to notify the Project Implementing Entity shall be disregarded; references to the Project Implementing Entity in Articles VIII and IX of these General Conditions shall be disregarded with the exception of the reference in Section 9.03; and, in those other Sections of these General Conditions where reference is made to a Project Implementing Entity's obligations under the Project Agreement or under a Legal Agreement, such obligations shall be deemed to be those set forth in the respective “Subsidiary Agreement” referred to herein.”