

CONFORMED COPY

LOAN NUMBER 3740 EE

Loan Agreement

(District Heating Rehabilitation Project)

between

REPUBLIC OF ESTONIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

Dated May 27, 1994

LOAN NUMBER 3740 EE

LOAN AGREEMENT

AGREEMENT, dated May 27, 1994, between REPUBLIC OF ESTONIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS: (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) the European Investment Bank (the EIB) is considering making a loan (the EIB Loan) to the Borrower in an aggregate principal amount equivalent to approximately \$5,000,000 to assist in financing the Project on the terms and conditions to be set forth in a Loan Agreement (the EIB Loan Agreement);

(C) the Swedish Government through its agency BITS (BITS) has agreed to extend a credit (the BITS Credit) to the Borrower in an aggregate principal amount equivalent to approximately \$10,000,000 to assist in financing the Project on the terms and conditions to be set forth in a credit agreement (the BITS Credit Agreement); and

(D) Part B.1 of the Project will be carried out by the Municipality of Tallinn, Part B.2 by the Municipality of Tartu; Part B.3 by the Municipality of Parnu; Part C will be carried out by Eesti Energia; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the

foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements of even date herewith between the Bank and Eesti Energia, Tallinn and Tartu;

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of Agreement."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "EE" means Eesti Energia, established by Decree No. 182 (September 12, 1991) and Written Order No. 159 (September 26, 1991) by the Borrower's Ministry of Industry and Energy;

(b) "EE Project Agreement" means the agreement between the Bank and Eesti Energia (EE) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(c) "EE Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(d) "EE Subsidiary Loan Agreement" means the agreement entered into between the Borrower and EE pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement;

(e) "MOF" means the Borrower's Ministry of Finance.

(f) "MOF Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(g) "Special Account" means the EE Special Account, the MOF Special Account, the Tallinn Special Account, or the Tartu Special Account as the case may be;

(h) "Subsidiary Loan Agreement" means the EE Subsidiary Loan Agreement, the Tallinn Subsidiary Loan Agreement and the Tartu Subsidiary Loan Agreement as the case may be;

(i) "Tallinn" means the Municipality of Tallinn;

(j) "Tallinn Project Agreement" means the agreement between the Bank and Tallinn of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to said Project Agreement;

(k) "Tallinn Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(l) "Tallinn Subsidiary Loan Agreement" means the agreement entered into between the Borrower and Tallinn pursuant to Section 3.01 (b) of this

Agreement, as the same may be amended from time to time, and such term includes all schedules to said Subsidiary Loan Agreement;

(m) "Tartu" means the Municipality of Tartu;

(n) "Tartu Project Agreement" means the agreement between the Bank and Tartu of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to said Project Agreement;

(o) "Tartu Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(p) "Tartu Subsidiary Loan Agreement" means the agreement entered into between the Borrower and Tartu pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to said Subsidiary Loan Agreement.

## ARTICLE II

### The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of thirty-eight million four hundred thousand dollars (\$38,400,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower shall, for purposes of the Project, open and maintain in United States dollars four special deposit accounts, the EE Special Account, the MOF Special Account, the Tallinn Special Account, and the Tartu Special Account, each in a bank acceptable to the Bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1999 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ( $1/2$  of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

- (ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989 bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent (1/2 of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on February 1 and August 1 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall carry out, or cause to be carried out, Parts A, D.1 and D.6 of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project, including, without limitation on the foregoing, maintaining project management arrangements satisfactory to the Bank; and
- (ii) without limitation or restriction upon any of its other obligations under the Loan Agreement, the Borrower shall cause EE, Tallinn and Tartu to perform all their respective obligations set forth in their respective Project Agreements, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate, to enable each of EE, Tallinn and Tartu to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend a portion of the proceeds of the Loan to EE, Tallinn and Tartu under subsidiary loan agreements entered into between the Borrower and EE, Tallinn and Tartu under terms and conditions which shall have been approved by the Bank.

(c) The Borrower shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any Subsidiary Loan Agreement or any provision thereof.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, D.1 and D.6 of the Project shall be governed by the provisions of Schedule 4 to this Agreement. Without limitation on the foregoing: (a) the Borrower shall ensure that only sub-loans meeting criteria satisfactory to the Bank are approved; and (b) the studies and advisory services referred to in Schedule 2, Part D.1 shall be carried out in accordance with terms of reference and a timetable satisfactory to the Bank.

Section 3.03. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 Parts B.1, B.2, and C of the Project shall be carried out by Tallinn, Tartu, and EE respectively pursuant to Section 2.03 of the respective Project Agreement.

Section 3.04. The Borrower shall carry out, or cause its Ministry of Environment to carry out, environmental mitigation and monitoring plans satisfactory to the Bank, including without limitation guidelines for harvesting and managing peat and wood fuels resources.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts A, D.1 and D.6 of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the MOF Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has

received the audit report for the fiscal year in which the last withdrawal from the Loan Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Borrower agrees, as long as it exercises control over the setting of tariffs of EE, to establish tariffs for the heat-only operations of EE's Iru Power Plant which would allow such power plant, under conditions of efficient operation at reasonable levels of capacity utilization, to cover its costs of production, operations and maintenance, depreciation, interest and make a reasonable contribution to reserves.

#### ARTICLE V

##### Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) EE, Tallinn and Tartu shall have failed to perform any of their respective obligations under the relevant Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that EE, Tallinn or Tartu will be able to perform their respective obligations under the relevant Project Agreement.
- (c) The governing statutes of EE, Tallinn and Tartu shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EE, Tallinn or Tartu to perform any of its obligations under the EE, Tallinn or Tartu Project Agreement respectively.
- (d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of EE or for the suspension of its operations.
- (e) The EIB Loan Agreement shall have failed to become effective by December 31, 1994, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (f) The BITS Credit Agreement shall have failed to become effective by December 31, 1994, or such later date as the Bank may agree; provided, however, that the provision of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.
- (g) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any event specified in paragraphs (c) or (d) of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) each Subsidiary Loan Agreement has been executed on behalf of the Borrower and EE, Tallinn and Tartu; and

(b) the BITS Credit Agreement and the EIB Loan Agreement shall have been signed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the respective Project Agreements have been duly authorized or ratified by EE, Tallinn and Tartu and are legally binding upon EE, Tallinn and Tartu respectively in accordance with their respective terms; and

(b) that the respective Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and EE, Tallinn and Tartu respectively, and are legally binding upon the Borrower and EE, Tallinn and Tartu respectively in accordance with their respective terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

#### ARTICLE VII

##### Representative of the Borrower; Addresses

Section 7.01. The Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
1 Suur-Ameerika  
EE00100 Tallinn





	(Office equipment, computers, software)		
(2)	Goods and installation:		
(a)	for Part A.1 of the Project (Small boiler conversions)	3,097,000	100% of foreign expenditures and 85% of local expenditures
(b)	for Part A.2 of the Project (Small boiler replacements)	4,379,500	100% of foreign expenditures and 85% of local expenditures
(c)	for Part B.2 (a) of the Project (Tartu Luunja boiler conversions)	5,301,000	100% of foreign and 45% of local expenditures
(3)	Works:		
(a)	for Part B.1 of the Project (Tallinn DH improvements)	2,726,500	70% of local expenditures
(b)	for repair of air preheater in Part C of the Project (Iru Power Plant)	342,000	100% of foreign expenditures
(c)	for Part C of the Project (Iru Power Plant) other than (3) (b) above	256,500	45% of local expenditures
(4)	Unallocated	1,920,000	
	TOTAL	38,400,000	=====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$3,800,000 may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after April 15, 1994.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under contracts for goods, works and services not exceeding \$50,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project, in support of the Borrower's energy policy, are to reduce fuel costs and import requirements, to bring about energy conservation and increased efficiency and economy of major district heating systems, to improve environmental conditions in affected areas, and to support the strengthening and restructuring of district heating enterprises and the development of the Borrower's energy sector.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Small Boiler Conversion/Replacement Program

1. Conversion of about 125 MW of small boilers to local fuels, mainly peat and wood chips.
2. Replacement of about 20 MW of small and medium-sized boilers to local fuels, mainly peat and wood chips.

Part B: District Heating Rehabilitation Program

1. Tallinn -- Improving efficiency of oil-fired boilers, replacing old pipelines and ventilation of concrete culverts; installing control equipment for large substations, improving water treatment, installing variable speed pumps and remote control, maintenance equipment and spare parts, new pipeline connection, installing equipment including heat meters in about 1,050 substations, and providing related engineering services and office and other equipment.
2. Tartu -- (a) Conversion of two oil and gas-fired boilers at Luunja Boiler House to local fuels and providing related engineering services and office and other equipment; and (b) conversion of three oil and gas-fired boilers at Ropka Boiler House to local fuels and installing wood chipping equipment, replacement of old pipelines, improving water treatment and the efficiency of boilers, installing equipment including heat meters in about 640 substations, maintenance equipment and spare parts, new pipeline connection and related engineering services and office and other equipment.
3. Parnu -- Conversion of two oil and gas-fired boilers to local fuels and installing wood chipping equipment; replacing old pipelines, installing equipment including heat meters in about 160 substations, improving water treatment, installing variable speed pumps and a control and regulation system, and providing related engineering services and office and other equipment.

Part C: Iru (CHP, Tallinn) Power Plant Improvement

Repair of air preheater for one steam boiler, improving water treatment, installation of automation and measurement equipment and variable speed pumps, and providing related engineering services and office and other equipment.

Part D: Institutional Support Program

1. Provision of consultancy and advisory services to assist with disbursement and procurement requirements of the Project; to assist with heat planning in municipalities; and to assist with development of the legal and regulatory framework of the energy sector, including related training and the provision of office equipment, computers and software.
2. Tallinn -- Provision of consultancy and advisory services to restructure the Tallinn district heating companies, including training and the provision of related office equipment, computers and software.
3. Tartu -- Provision of consultancy and advisory services to restructure the Tartu district heating companies, including training and the provision of related office equipment, computers and software.
4. Parnu -- Provision of consultancy and advisory services to carry out a review of the requirements for strengthening the management systems of the Parnu district heating company, including training and the provision of related office equipment, computers and software.

5. Eesti Energia -- Training and provision of related office equipment, computers and software.

6. Ministry of Environment and local environmental departments -- provision of advisory services to develop training programs and to train local teams, including provision of related materials, for an in-country training program in environmental management, and a limited number of study tours to neighboring countries and to review environmental management practice.

\* \* \*

The Project is expected to be completed by June 30, 1999.

### SCHEDULE 3

#### Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each February 1 and August 1 beginning February 1, 2000 through February 1, 2009	1,920,000
and on August 1, 2009	1,920,000

---

\* The figures in this column represent dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

#### Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years	0.20

before maturity	
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

#### SCHEDULE 4

#### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

#### Part A: International Competitive Bidding

Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Bank, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

#### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Estonia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

#### Part C: Other Procurement Procedures

1. Turnkey contracts for small boiler conversions estimated to cost \$50,000 equivalent or more, up to an aggregate amount equivalent to \$2,800,000, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Items or groups of items for office equipment and materials estimated to cost less than \$50,000 per item or group, up to an aggregate amount equivalent to \$140,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Small turnkey contracts for boiler conversions estimated to cost less than \$50,000 equivalent, up to an aggregate amount equivalent to \$480,000,

may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for small boiler replacements and the first four contracts for small boiler conversions, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Loan Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (b), (1) (c), (3) (b) and (3) (c) in the case of the EE Special Account, Categories (1) (c), (2) (a) and (2) (b) in the case of the MOF Special Account, Categories (1) (a), (1) (c) and (3) (a) in the case of the Tallinn Special Account and Category (1) (c) and (2) (c) in the case of the Tartu Special Account, as set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to the Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$400,000 in the case of the EE Special Account, an amount equivalent to \$400,000 in the case of the MOF Special Account, an amount equivalent to \$1,000,000 in the case of the Tallinn Special Account and an amount equivalent to \$400,000 in the case of the Tartu Special Account to be withdrawn from the Loan Account and deposited in the relevant Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of a Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the

basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the relevant Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of a Special Account, the Borrower shall furnish to the Bank requests for deposits into such Special Account at such intervals as the Bank shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the relevant Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of such Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of a Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into a Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the relevant Authorized Allocation.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in such Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of a Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into such Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into such Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in a Special Account.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c)

of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

