

CONFORMED COPY

LOAN NUMBER 2724 GU

Loan Agreement

(Power Distribution Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

INSTITUTO DE ELECTRIFICACION

Dated June 7, 1988

LOAN NUMBER 2724 GU

LOAN AGREEMENT

AGREEMENT, dated June 7, 1988, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and INSTITUTO NACIONAL DE ELECTRIFICACION (the Borrower).

(A) the Republic of Guatemala (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan and to undertake such other obligations as set forth in the Guarantee Agreement;

(C) Parts A and D (3) of the Project will be carried out by EMPRESA ELECTRICA DE GUATEMALA, S.A. (hereinafter EEG) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to EEG part of the proceeds of the Loan as provided in this Agreement; 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 Agreement of even date herewith between the Bank and EEG;

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 last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this 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 additional terms have the following meanings:

(a) "EMPAGUA" means Empresa Municipal de Guatemala, established pursuant to the convenio signed between the Municipalidad de Guatemala and the Gobierno de la Republica on May 21, 1971, approved by, the Executive by means of an Acuerdo Gubernativo dated June 1, 1977, published in El Guatemalteco of the same date;

(b) "INDE's Organic Law" means Decree No. 1287 of June 9, 1959 creating INDE, as amended by Decree Laws numbers 1413, 37, 195 of May 27, 1959, June 3, 1963 and April 20, 1964 respectively, and Decree Law 4-86 of January 7, 1986;

(c) "EEG Estatutos" means the Charter of incorporation (escritura de organizacion) and by-laws of EEG approved by the President of the Republic on December 22, 1939;

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

(e) "Chixoy Loan Agreement" means the Loan Agreement (Chixoy Power Project) between the Bank and the Borrower, dated July 21, 1978, as amended by the Agreement Amending Loan Agreement, between the same parties, dated March 22, 1985; and "Chixoy Guarantee Agreement" means the Guarantee Agreement between the Guarantor and the Bank, dated July 21, 1978, as amended by the Agreement Amending Guarantee Agreement, between the same parties, dated March 22, 1985;

(f) "Fideicomiso Contract" means the contract to be entered into pursuant to Section 3.02 (b) of this Agreement for purposes of establishing a trust fund (hereinafter called Fideicomiso) within the limits of Article 766 through 793 of the Guarantor's commercial Code enacted by Decree No. 2-70 of the Congress of the Guarantor dated January 28, 1970; and

(g) "Plan of Action" means the plan of action for institutional improvements to be carried out respectively by the Borrower and EEG as set forth in Schedule 5 to the Loan Agreement as such schedule may be amended from time to time by agreement among the Borrower, EEG and the Bank.

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, an amount in various currencies equivalent to seventy million dollars (\$70,000,000).

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, as such Schedule may be amended from time to time by agreement between the Bank and the Borrower 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) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up

to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and the Borrower.

Section 2.03. The Closing Date shall be June 30, 1996 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 per annum for each Interest Period equal to one-half percent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Guarantor and the Borrower of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

(i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.

(iii) "Semester" means the first six months or the second six months of 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end, shall carry out Parts B, C, D (1) and D (2) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and public utility practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) The Borrower shall cause, pursuant to the provisions of the Agreement referred to in paragraph (b) below, EEG to carry out Parts A and D (3) of the Project and shall take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EEG to perform its obligations, and shall not take or permit to be taken any action which would prevent or interfere with EEG's performance.

(b) The Borrower shall enter into a Fideicomiso Contract with EEG and a bank satisfactory to the Bank whereby an amount in various currencies equivalent to \$35,000,000 from the proceeds of the Loan allocated for the carrying out of Part A of the Project shall be made available to EEG under terms and conditions which shall have been approved by the Bank, including, inter alia, that EEG shall repay to the Fideicomiso the amounts so made available to EEG on the same terms and conditions specified in Sections 2.04 through 2.07 of this Agreement.

(c) The Borrower shall exercise its rights under the Fideicomiso Contract 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 the Fideicomiso Contract or any provision thereof.

(d) Without its limitation to other provisions of this Agreement, the Borrower shall: (i) carry out the actions respectively assigned to it in the Plan of Action in accordance with its terms; and (ii) not later than November 30 each year furnish to the Bank for its comments, a report on the progress made in the carrying out of such actions.

Section 3.03. In the carrying out of Part D (2) of the Project, the Borrower shall:

(a) not later than December 31, 1989, furnish to the Bank for its approval, the program to be carried out under such part of the Project as well as the schedule for its implementation;

(b) not later than October 31 of each year, furnish to the Bank a detailed report of the training activities to be carried out under such training program in the following calendar year; and

(c) carry out such program taking into account, the comments, if any, made by the Bank.

Section 3.04. The Borrower shall: (a) not later than June 30, 1991, complete the feasibility studies referred to in Part C of the Project and such other studies as shall be required to update, on a least cost analysis, its generation and transmission program; and (b) not later than September 30, 1991, furnish such program to the Bank for its comments.

Section 3.05. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.06. 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 A and D (3) of the Project shall be carried out by EEG, pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and public utility practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times maintain its existence and right to carry on its operations and shall, except as the Bank shall otherwise agree, take all necessary steps that are required to acquire, maintain and renew all rights, powers, privileges and franchises which are necessary or useful in the conduct of its business.

Section 4.03. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.04. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

Section 4.05. Without limiting the generality of Section 4.03, the Borrower

shall, under arrangements satisfactory to the Bank, cause the dams owned by the Borrower to be: (a) periodically inspected in accordance with sound engineering practices in order to determine whether there are any deficiencies in the condition of such dams, or in the quality and adequacy on maintenance or methods of operation of the same, which may endanger their safety; and (b) at all times adequately maintained, correcting any deficiencies that may be found pursuant to paragraph (a) of this Section.

Section 4.06. Except as the Bank and the Borrower shall otherwise agree, the Borrower shall not sell, lease, transfer or otherwise dispose of its property or assets which shall be required for the efficient operation of its business, including the Project.

Section 4.07. The Borrower shall, as and when required, take measures satisfactory to the Bank, for the improvement of its coordination with EEG in the planning and operation of its generation systems and in the financing thereof.

ARTICLE V

Financial Covenants

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including separate accounts for its parts of the Project.

(b) The Borrower shall:

(i) have its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the 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 my case not later than four months after the end of each each year, (A) certified copies of its financial statements for such year as so audited, and (B) the report of such audit by said auditors, of such scope and in such detail as the shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said accounts, financial statements as well as the audit thereof, and said records 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, in accordance with paragraph (a) of this Section, separate 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 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 separate accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report thereof contains, in respect of such separate accounts, a separate opinion by said auditors as to other the proceeds of Loan withdrawn in respect of such expenditures were used for the purposes for which they were provided.

Section 5.02. Until the Project shall have been completed:

(a) the Borrower shall: (i) inform the Bank of any proposal of the Borrower

to make any capital expenditure for the Borrower's expansion program other than expenditure required for the Project or for other projects carried out by the Borrower and financed by the Bank; and (ii) prior to the commitment of such capital expenditure, furnish to the Bank, for its comments, a report showing that such capital expenditure is economically justified and financially sound, and that financing is available on terms and conditions which will not adversely affect the Borrower's financial position, the carrying out of the Project or any other project financed by the Bank; and

(b) for purposes of this Section, "capital expenditure" means all expenditures incurred on account of fixed assets, including interest charged to construction exceeding the equivalent of five million dollars.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall not incur any debt, unless the net revenues of the Borrower for the fiscal year immediately preceding the date of such incurrence or for a later twelve month period ended prior to the date of such incurrence, whichever is the greater, shall be at least 1.5 times the estimated maximum debt service requirements of the Borrower for any succeeding fiscal year on all debt of the Borrower, including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term "debt" means any indebtedness of the Borrower maturing by its terms more than one year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred: (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; 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 adjusted to take account of the Borrower's tariffs in effect at the time of the incurrence of debt, even though they were not in effect during the twelve-month period to which such revenues relate, 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 repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.

(vi) Whenever, for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Guarantor, 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 Bank.

Section 5.04.(a) Except as the Bank shall otherwise agree, and subject to the provisions of paragraph (b) below, the Borrower shall earn: (i) for its fiscal year 1988, an annual return of not less than 4.6% of the average current net value of the Borrower's fixed assets in operation; (ii) for its fiscal year 1989, an annual return of not less than 4.3% of the average current net value of the Borrower's fixed assets in operation; and (iii) for each of its succeeding fiscal years, an annual return of not less than 5% of the average current net value of the Borrower's fixed assets in operation.

(b) Commencing on January 1, 1989 and until December 31, 1989 the Borrower shall: (i) take appropriate measures to reduce its operating ratio gradually each month in amounts sufficient to achieve an operating ratio for such twelve month period not higher than 56 percent; and (ii) furnish to the Bank each month a calculation of the operating ratio achieved for the period between January 1, 1989 and the last day of the month preceding the month in which the calculation is made.

(c) Before September 30 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(d) If any such review shows that the Borrower would not meet the requirements set forth in paragraph (a) for the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures in order to meet such requirements.

(e) For the purposes of this Section:

(i) The annual return shall be calculated by dividing the Borrower's net operating income for the fiscal year in question by one-half of the sum of the current net value of the Borrower's fixed assets in operation at the beginning and at the end of that fiscal year provided, however, that, for fiscal year 1988 only, the Borrower's net operating income shall also include such amount of net operating income realized during fiscal year 1987 in excess of what shall have been required to comply with the provisions of paragraph (a) of this Section in fiscal year 1987.

(ii) The term "net operating income" means total operating revenues less total operating expenses.

(iii) The term "total operating revenues" means revenues from all sources related to operations.

(iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2.5% per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding interest and other charges on debt.

(v) The average current gross value of the Borrower's fixed assets in operation shall be calculated as one-half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vi) The term "current net value of the Borrower's fixed assets in operation" means the gross value of the Borrower's fixed assets in operation less the amount of accumulated depreciation, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

(vii) The operating ratio shall be calculated by dividing the Borrower's total operating expenses of the period in question by the Borrower's total operating revenues during such period.

(f) To the extent that the Borrower shall comply with its obligations under paragraph (a) of this Section, the Borrower's obligations under Section 5.04 (b) of the Chixoy Loan Agreement shall be deemed to be complied with.

Section 5.05. The Borrower shall reduce its accounts receivable for electricity sales so that, commencing on January 1, 1989, such accounts receivable shall not exceed the sum of the amounts billed by the Borrower during the two months immediately preceding the date on which such calculation is made.

Section 5.06. The Borrower shall:

(a) develop, and not later than June 30, 1989, furnish to the Bank for its comments, the procedures and criteria for the transfer of funds to the Guarantor in a manner not to impair the Borrower's financial position and its ability to carry out the Project; and

(b) thereafter apply such procedures and criteria, the taking into account the comments, if any, made by the Bank.

Section 5.07. The Borrower shall:

(a) not later than September 30, 1988 furnish to the Bank for its comments, a five-year program or achieving a gradual increase of its ratio of electricity consumers to employees to a level not lower than: (i) 40 to 1 by December 31, 1989; and (ii) 75 to 1 by December 31, 1993; and

(b) promptly thereafter carry out such program taking into account the comments, if any, made by the Bank.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (k) of the General Conditions, the following additional events are specified:

(a) EEG shall have failed to perform any of its obligations under the Project Agreement or the Fideicomiso Contract;

(b) the Guarantor or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the Borrower or EEG or for the suspension of their operations;

(c) a change shall have been made in INDED's Organic Law which, in the opinion of the Bank, shall materially and adversely affect the carrying out of the Project;

(d) a change shall have been made in EEG Estatutos which, in the opinion of the Bank, shall materially and adversely affect the carrying out of the Project; and

(e) as a result events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall, make it improbable that EEG will be able to perform its obligations under the Project Agreement.

Section 6.02. Pursuant to Section 7.01 (b) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall have occurred 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 (b), (e) or (d) of Section 6.01 (e) of

this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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) that the Borrower shall have entered into the Fideicomiso Contract with all the parties thereto; and

(b) that the Guarantor shall have entered into a contract with EMPAGUA and, EEG, satisfactory to the Bank whereby EMAGUA shall undertake to pay to EEG the amounts referred to in Section 3.01 (c) of the Guarantee Agreement.

Section 7.02. 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) the Project Agreement has been duly authorized or ratified by EEG and is legally binding upon EEG in accord with its terms; and

(b) the Fideicomiso Contracts has been duly authorized or ratified by the Borrower, the bank administering the Fideicomiso and EEG and is legally binding upon the parties thereto in accordance with its terms.

Section 7.03. The date September 7, 1988 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The President of the Borrower is designated as representative of the Borrower for the of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

For the Borrower:

Institute Nacional de Electrificacion
6a Avenida 2-73 Zona 4
Guatemala City
Guatemala

Cable address:

INDE
Guatemala

Telex:

INDE 5324-GU

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Shahid Husain

Regional Vice President
Latin America and the Caribbean

INSTITUTO NACIONAL DE ELECTRIFICACION

By /s/ Raul Aguilar Arrivillaga

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
I. EEG:		
(1) Goods under Part A of the Project	25,000,000	100% of foreign expenditures and 93% of local expenditures (ex-factory cost)
(2) Interest and other charges on accrued on or before June 30, 1992	5,000,000	
(3) Unallocated	5,000,000	
II. ME:		
(4) Goods under Parts B (2) and (3) of the Project	13,500,000	100% of foreign expenditures and 93% of local expenditures (ex-factory cost)
(5) Services under Parts B (2) of the Project	1,400,000	70%
(6) Works for Part C of the Project	800,000	62%
(7) Consultants'	6,200,000	100%

	services under Parts B (2) and C of the Project	
(8)	Interest accrued on or before June 30, 1992	5,000,000
(9)	Unallocated	8,100,000
	TOTAL	70,000,000

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 Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of payments made for expenditures prior to the date of this Agreement; and

(b) in respect of payments made for expenditures under categories (4) and (5) unless the Bank shall have received in respect of each plant included in part B (2) of the Project, the respective feasibility study, satisfactory to the Bank, showing the technical and economic justification for the rehabilitation of each such plant.

4. In the event that feasibility studies satisfactory to the Bank have not been furnished in respect of all plants included in Part (B) (2) of the Project by April 30, 1989, any amount of the Loan which shall remain undisbursed under Categories (4) and (5) as of such date shall, unless otherwise agreed by the Bank, be cancelled.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to improve the efficiency of the Guarantor's power sector; (b) to improve the operating reliability of the Borrower's and EEG's system; (c) to assist the Borrower in the preparation of the expansion of its generation system; and (d) to expand the subtransmission and primary and secondary distribution systems in areas served by EEG, during the period 1988-1994.

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

Part A:

1. Installation of: (i) about 80 kilometers of 69 kilovolt lines and power transformers of 69/13.8 kilovolts with a capacity of 87 megavolt amperes; and (ii) about 960 kilometers of 3.2 kilovolts of primary and secondary distribution lines and distribution lines with a capacity of 85 megavolt amperes.

2. Acquisition and installation of about 90,000 meters and the protection and switching equipment therefor, street lighting, about 100 vehicles for the operation and maintenance of EEG's systems; and installation of a communications system linking BEG control center its facilities.

3. Carrying out of a rural electrification program in villages for about 14,000 households comprising, inter alia, the installation of about 995 kilometers of 13.2 kilovolt primary and secondary lines, distribution transformers with a capacity of 9.5 megavolt amperes.

Part B:

1. Construction of, and acquisition and installation of equipment for a telecontrol, telecommand and telecommunication system to optimize the efficiency of the operation and transmission of the power system in the Guarantor's territory.
2. Rehabilitation of the Borrower's generating plants.
3. Acquisition of construction equipment for the Borrower's distribution and transmission lines.

Part C:

Assessment of existing geological information and, if warranted, carrying out geological investigation, including the construction of the exploration galleries required therefor, and feasibility studies in connection with the Borrower's Chulac and Xalala Hydroelectric Projects aimed at the updating the former and completing the latter.

Part D:

1. Provision of technical assistance to strengthen the financial, planning and administrative capabilities of the Borrower.
2. Preparation and implementation of a four-year training program for the Borrower's staff to improve their managerial and technical skills.
3. Preparation and implementation of a four-year training program for EEG's staff to improve their managerial and technical skills.

* * *

The Project is expected to be completed by December 31, 1995.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each June 15 and December 15 beginning December 15, 1991 through June 15, 2001	3,500,000

* 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

The following premiums are specified for the purposes of Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (ex-pressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen 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 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 1985 (the Guidelines).

Part B: Preference for Domestic and Regional Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Guatemala and in a country which is a party to the Mercado Comun Centroamericano, the common market created by the General Treaty for Central American Economic Integration signed at Managua, Nicaragua on December 31, 1969 by Guatemala, El Salvador, Honduras, Nicaragua and Costa Rica (hereinafter called the Central American Common Market) may be granted a margin of preference in accordance with, and subject to, the following provisions:

1. All bidding documents for the procurement of goods shall clearly indicate any preference which would be granted and the following information required to establish the eligibility of a bid for such preference, and methods and stages that will be followed in the evaluation and comparison of bids:

(a) For the purpose of evaluation and comparison of bids for the supply of goods:

(i) bidders shall be required to state in their bid the c.i.f. (port of entry) price for imported goods, or in the case of a Central American Bid, the ex-factory price for domestically-manufactured goods;

(ii) customs duties and other import tariffs on imported goods, and sales and similar taxes on domestically-supplied goods, shall be excluded, except to the extent specified under (b) (iii) (B) below; and

(iii) the cost to the Borrower of insurance, inland freight and other expenditures incidental to the delivery of goods to the place of their use or installation shall be included.

(b) Bids shall be compared in accordance with the following rules:

(i) the term "Central American Bid" means a bid submitted by a manufacturer established in the territories of member countries of the Central American Common Market for goods manufactured or processed to a substantial extent (as reasonably determined by the Bank) in such territories; any other bid shall be deemed to be a "Non-Central American Bid";

(ii) the bid price under a Central American Bid shall be the sea of the following amounts:

(A) the ex-factory price of such goods; and
(B) freight, insurance and other costs of delivery of such goods to the site designated in the specifications;

(iii) for the purpose of comparing any Non-Central American Bid with any Central American Bid, the price under a Non-Central American Bid shall be the sum of the following amounts:

(A) the c.i.f. (port of entry) price of such goods;
(B) half the amount of any tariffs on the importation of such goods into the territories of the Borrower which generally apply to non-exempt importers, or 15% of the amounts specified in (A) above, whichever shall be lower; and
(C) freight, insurance and other costs of delivery of such goods from the port of entry to the site designated in the specifications.

Part C: Other Procurement Procedures

1. Standardized equipment and proprietary item, up to an aggregate amount not to exceed the equivalent of \$500,000 may be procured under contracts executed through direct contracting with suppliers.

2. Goods estimated to cost less than the equivalent of \$50,000 per contract, up to an aggregate not to exceed the equivalent of \$700,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three international suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

3. Works shall be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory 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 goods or works estimated to cost the equivalent of \$200,000 or more, 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, such 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 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) (ii) of this Agreement.

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

Section II. Employment of Consultants

1. In order to assist the Borrower and EEG in carrying out the Project, the Borrower and EEG shall employ, or cause to be employed, consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981.

2. The Borrower shall, not later than June 30, 1988, June 30, 1989 and June 30, 1988, submit to the Bank, for its review, the terms of reference of the consultants to be employed to assist the Borrower in carrying out Parts C, D (2) and B (1) of the Project, respectively.

SCHEDULE 5

Plan of Action

A. Actions to be taken by the Borrower:	By
(i) General	
Furnish to the Bank a consolidation of financial statistics for the power sector, including financial statements and basic personnel statistics	June 30, 1989
(ii) Inventories	
Establishment of a uniform codification for spare parts, material and equipment, aimed at interchanging parts with EEG and reducing the stock level of inventories	June 30, 1990
(iii) Planning	

- (a) Establishment of coordination committees to plan the Borrower's supply to EEG, prepare demand projections and program construction of transmission lines and substations December 31, 1988
- (b) Furnish to the Bank a consolidation of financial projections December 31, 1989
 - (iv) Tariffs
- (a) Exchange views with the Bank on the standardization and simplification of existing tariff schedules December 31, 1988
- (b) Furnish to the Bank an updating of Marginal cost studies June 30, 1989
 - (v) Accounting
- (a) Furnish to the Bank an asset revaluation statement audited by the auditors referred to in Section 5.01 (b) of the Loan Agreement June 30, 1989
- (b) Exclusion, from fixed assets, of plants and/or studies to be written-off or transferred to operating plants or to work in progress June 30, 1989
- (c) Incorporation of data processing into the accounting system December 31, 1989
- (d) Reconciliation of the accounts for fiscal years 1986 June 30, 1989
 - (vi) Personnel
- (a) Adoption of a system, satisfactory to the Bank, for grading, compensation, and benefits, recruitment and performance evaluation of personnel, and of statistic collection of personnel data December 31, 1989
- (b) Execution of appropriate legal instruments to exclude staff from civil service regulations March 31, 1989
 - (vii) Budget
- (a) Adoption of a computerized budget system December 31, 1989
- (b) Elaboration of monthly financial reports consistent and each month with the existing account- June 30, 1990 thereafter

ing data and the estimated budget allocations

(viii) Internal Auditing

- (a) Furnish to the Bank a program for the improvement of all accounting systems June 30, 1989
- (b) Furnish to the Bank a program for the inclusion of internal control and operational system June 30, 1990

(ix) Insurance

Insurance of assets against all risks, based on revalued assets September 30, 1989

B. Actions to be taken by EEG:

By

(i) Inventories

Establishment of a uniform modification for spare parts, material and equipment, aimed at interchanging parts with INDE and reducing the stock level June 30, 1990

(ii) Accounting

- (a) Furnish to the Bank an asset revaluation statement audited by the auditors referred to in Section 4.01 (b) of the Project Agreement June 30, 1989
- (b) Exclusion, from fixed assets, of plants and/or studies to be written-off or transferred to operating plants or to work in progress June 30, 1989

(iii) Insurance

Insurance of assets against all risks, based on revalued assets March 31, 1989

