

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF020548

Global Environment Facility Trust Fund Grant Agreement

(Renewable Energy in the Rural Market Project)

between

ARGENTINE REPUBLIC

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
acting as an Implementing Agency of the Global Environment Facility

Dated October 26, 1999

GEF TRUST FUND GRANT NUMBER TF020548

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated October 26, 1999, between ARGENTINE REPUBLIC (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, inter alia, established the GEF Trust Fund, authorized the first replenishment of the GEF Trust Fund and appointed the Bank as Trustee of the GEF Trust Fund (Resolution No. 94-2);

(C) the second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) the Recipient, having satisfied itself as the feasibility and priority of the Project described in Schedule 2 to this GEF Grant Agreement, has requested assistance from the resources of the GEF Trust Fund in the financing of Parts A.1, A.4, B, C.1-.7, C.13 and D.1-.2 of the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution No. 94-2, and to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2; and

(E) the Recipient has also requested the Bank to provide additional financing

towards the financing of Parts A, C and D.1-.2 of the Project by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), whereby the Bank has agreed to provide such assistance in an amount equal to thirty million Dollars (\$30,000,000) (the Loan); and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend a grant (the GEF Trust Fund Grant) to the Recipient upon the terms and conditions set forth in this agreement (the GEF Grant Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, as amended through December 2, 1997, with the modifications set forth in paragraph (b) of this Section (the General Conditions), constitute an integral part of this GEF Grant Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (g), (i) and (l) through (p) 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI; and
 - (xi) Sections 12.01, 12,02 , 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
 - (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (6) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
 - (iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
 - (iv) the term "Loan Agreement", wherever used in the General Conditions, means this GEF Grant Agreement;
 - (v) the terms "Loan" and "loan", wherever used in the General Conditions, mean the GEF Trust Fund Grant;
 - (vi) the term "Loan Account", wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
 - (vii) a new subparagraph is added after subparagraph (o) in Section 6.02

of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF."

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

(a) "CFE" means the Recipient's Consejo Federal de Energía Eléctrica (Federal Electric Power Council);

(b) "Concession Agreement" means a Concession Agreement I or a Concession Agreement II;

(c) "Concession Agreement I" means the agreement referred to in paragraph (d) (A) of Schedule 5 to this GEF Grant Agreement;

(d) "Concession Agreement II" means the agreement referred to in paragraph (d) (B) (2) of Schedule 5 to this GEF Grant Agreement;

(e) "Concessionaire" means the Existing Concessionaire or the New Concessionaire;

(f) "Existing Concessionaire" means a private sector provider of electricity services operating in urban areas of a Participating Province as of February 1, 1999 pursuant to the terms of a concession agreement with the Participating Province;

(g) "Implementation Letter" means the letter of even date herewith from the Recipient to the Bank setting forth the Project monitoring indicators;

(h) "New Concessionaire" means a private sector provider of electricity services (acting under private commercial law and the management of which is not controlled by public sector owners) selected pursuant to paragraph (d) (B) (1) of Schedule 5 to this GEF Grant Agreement;

(i) "Participation Agreement" means any of the agreements referred to in Section 3.01 (c) of this GEF Grant Agreement;

(j) "Participating Province" means any one of the Recipient's provinces, eligible to enter into a Participation Agreement as set forth to in Section 3.01 (c) of this GEF Grant Agreement, which has in fact entered into a Participation Agreement;

(k) "PCU" means the unit referred to in Section 3.04 of this GEF Grant Agreement;

(l) "PIU" means the Project implementation unit of a Participating Province;

(m) "Procurement Agency Agreement" means the agreement referred to in Section 3.02 (b) of this GEF Grant Agreement;

(n) "SE" means the Recipient's Secretariat of Energy (Secretaría de Energía);

(o) "Solar Home System" and the acronym "SHS" mean a system of one or more solar photovoltaic panels, with battery storage and battery charge and discharge controllers, not connected to a power distribution grid, suitable for powering: (i) energy-efficient appliances; and (ii) at least three lighting fixtures with bulbs;

(p) "Special Account" means the account referred to in Section 2.02 (b) of this GEF Grant Agreement; and

(q) "Wind Home Unit" means a unit consisting of a small turbine, with battery storage and battery charge and discharge controllers, not connected to a power distribution grid, suitable for powering: (i) energy-efficient home appliances; and (ii) at least three lighting fixtures with bulbs.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to each Participating Province.

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this GEF Grant Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to seven million, two hundred thousand Special Drawing Rights (SDR 7,200,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this GEF Grant Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of installation, goods and services required for carrying out Parts A.1, A.4, B, C.1-.7, C.13 and D.1-.2 of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of Parts A.1, A.4, B, C.1-.7, C.13 and D.1-.2 of the Project, open and maintain in Dollars a special deposit account in Banco de la Nación Argentina on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this GEF Grant Agreement.

Section 2.03. The Closing Date shall be September 30, 2005 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project, and, to this end, shall:

(i) coordinate, administer and supervise the execution of the Project as a whole and specifically carry out Parts B, C and D of the Project through SE with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices; and

(ii) cause the Participating Provinces to carry out Parts A.1-.3 of the Project or Parts A.4-.6 of the Project, all in accordance with the provisions of the corresponding Participation Agreement.

(b) The Recipient shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of Part A of the Project by the respective Participating Province.

(c) The Recipient shall, from among those of its provinces deemed eligible because they have established a regulatory framework and have a power sector regulatory entity (all satisfactory to the Bank and compatible with the sound provision of electricity to the dispersed rural market and the private sector's participation in such provision), enter into an agreement with each of at least eight of such eligible provinces. Each said agreement shall: (i) govern each of such province's participation in carrying out Parts A.1-A.3 of the Project or Parts A.4-A.6 of the Project; and (ii) be satisfactory to the Bank and include the terms and conditions set forth in Schedule 5 to this GEF Grant Agreement.

(d) The Recipient shall exercise its rights and carry out its obligations under each Participation Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce any Participation Agreement or any provision thereof.

(e) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall complete the carrying out of Parts C.2-.12 of the Project in accordance with the timetable set forth in the Implementation Letter. For purposes of Part C.13 of the Project, the Recipient shall prepare by no later than each October 31 throughout the course of Project implementation, a plan satisfactory to the Bank for the carrying out of such Part C.13 of the Project during the calendar year immediately following each

such preparation. The Recipient shall prepare the first such plan no later than October 31, 1999, and shall carry out Part C.13 of the Project in accordance with the terms of each such plan.

(f) For purposes of Part B of the Project, the Recipient shall select provinces (which need not be Participating Provinces or eligible provinces pursuant to paragraph (c) of this Section) where there are necessary wind resources and each of which has agreed in writing with the Recipient to allow a pilot demonstration program under Part B of the Project to be carried out within its territory, cooperate in such program's execution and support the continuity of renewable energy service to rural users in its territory after completion of the pilot demonstration program.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant, as well as procurement of turn-key Wind Home Unit installation contracts under Part B of the Project and selection of each New Concessionaire, shall be governed by the provisions of Schedule 3 to this GEF Grant Agreement.

(b) For purposes of procuring the consultants' services required under Parts C and D.1 of the Project, the Recipient may enter into an agreement with a procurement agent (the Procurement Agency Agreement) under terms and conditions satisfactory to the Bank.

(c) The Recipient shall exercise its rights and carry out its obligations under the Procurement Agency Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, terminate, waive or fail to enforce the Procurement Agency Agreement or any provision thereof.

(d) The Recipient shall, through the PCU and not later than forty-five days before the conclusion of each calendar semester throughout Project implementation, prepare and furnish to the Bank the procurement plan to be followed by the Recipient, the Participating Provinces and the Existing Concessionaires (if applicable) under the Project during the calendar semester following the date of presentation of such plan. The first such plan shall be prepared by the Recipient with respect to procurement to be undertaken during the first calendar semester of 2000.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient on said plan. Section 3.04. The Recipient shall establish within SE, and thereafter operate and maintain throughout the course of Project implementation, a Project coordination unit (the PCU) with staff, functions and responsibilities satisfactory to the Bank, including, inter alia, the responsibility to assist SE in the monitoring, administration and supervision of the Project.

Section 3.05. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Project monitoring indicators set forth in the Implementation Letter, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and through the PCU furnish to the Bank, on or about forty days after the conclusion of each calendar quarter throughout the course of Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar quarter preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date (the first such report shall be prepared by the Recipient during the last calendar quarter of 1999); and

(c) review with the Bank, by June 30, 2001, or such later date as the Bank shall request (the mid-term review), the reports referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of said reports and the Bank's views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain, or cause to be established and maintained, a financial management system, including records and separate accounts, adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the Participating Provinces and the departments or agencies of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for 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 or cause to be furnished 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 or cause to be furnished 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 GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain or cause to be retained, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the GEF Trust Fund Grant 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.

ARTICLE V

Remedies of the Bank

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

(a) any Participating Province shall have failed to perform any of its obligations under its Participation Agreement.

(b) as a result of events which have occurred after the date of the GEF Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that any Participating Province will be able to perform its obligations under its

Participation Agreement.

(c) Law No. 15,336/60 (Ley Nacional de la Energía Eléctrica; National Electric Power Law) and/or regulations thereunder of the Recipient shall have been amended, suspended, abrogated, repealed or waived so as to in the opinion of the Bank affect materially and adversely the ability of the Recipient or of any Participating Province to perform any of its obligations in respect of the Project.

(d) (i) Subject to paragraph (ii) of this paragraph:

- (A) the right of the Recipient to withdraw the proceeds of the Loan made to the Recipient for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Loan Agreement providing therefor; or
- (B) 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 Recipient establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this GEF Grant Agreement;

(e) the Recipient shall have failed to perform any of its obligations under the Loan Agreement; and

(f) as a result of events which have occurred after the date of the GEF Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Recipient will be able to perform its obligations under the Loan Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness thereunder, except only the effectiveness of this GEF Grant Agreement, have been fulfilled.

Section 6.02. The date January 26, 2000 is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.03. This GEF Grant Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this GEF Grant Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Economy and Public Works and Services of the Recipient is designated as representative of the Receipt 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 Receipt:

Ministerio de Economía y Obras y Servicios Públicos
Hipólito Yrigoyen 250
1086 Buenos Aires
Argentina

Cable address:

Telex:

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:

248423 (MCI) or
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this GEF Grant Agreement to be signed in their respective names in Buenos Aires, Argentina, as of the day and year first above written.

ARGENTINE REPUBLIC

By /s/ Roque Benjamín Fernández

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

as an implementing agency of the Global Environment Facility

By /s/ Myrna Alexander

Acting Regional Vice President
Latin America and the Caribbean

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

Category	Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR)	% of Expenditures to be Financed
(1) Amounts, under Parts A.1 and A.4 of the Project, paid by a Participating Province to:		100% of the amounts so paid and reimbursed
(a) an Existing Concessionaire as provided in paragraphs (e) (2) through (13) of Schedule 5 to this GEF Grant Agreement and reimbursed to the Participating Province by the Recipient as provided in paragraph (a) of Schedule 5 to this GEF Grant Agreement	2,360,000	
(b) a New Concessionaire as provided in paragraphs (e) (2) through (13) of	1,570,000	

Schedule 5 to this GEF Grant Agreement and reimbursed to the Participating Province by the Recipient as Provided in paragraph (a) of Schedule 5 to this GEF Grant Agreement

(2)	Turn-key installation of Wind Home Units under Part B of the Project	300,000	70%
(3)	Consultants' services:		
	(a) under Part C.1 of the Project	210,000	75%
	(b) under Parts C.2-.7 of the Project	1,360,000	66%
	(c) under Parts D.1 and D.2 of the Project	860,000	34%
(4)	Training under Part C.13 the Project	290,000	40%
(5)	Unallocated	250,000	
	TOTAL	7,200,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this GEF Grant Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 720,000, may be made in respect of Categories (1) through (4) on account of payments made of expenditures before that date but after May 31, 1998; and

(b) payments made for expenditures under Category (3) (a) set forth in the table in paragraph 1 of this GEF Grant Agreement to finance the market structure study referred to in Part C.1 of the Project for the benefit of a province of the Recipient, unless the conditions set forth in paragraph (2) (b) of Schedule 1 to the Loan Agreement have been fulfilled; and

(c) payments made for expenditures under Category (1) set forth in the table in paragraph 1 of this GEF Grant Agreement to finance the installation of the systems referred to in Parts A.1 and A.4 of the Project, as the case may be, within the jurisdiction of a Recipient province unless the conditions set forth in paragraph (2) (c) (i) through (iv) of Schedule 1 to the Loan Agreement have been fulfilled.

3. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for items not covered by the terms of Section I, Part D.2 and Section II, Part D.2 of Schedule 3 to this GEF Grant Agreement, under such terms and conditions as the Bank shall specify by notice to the Recipient.

4. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this GEF Grant Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) provide the rural areas of the Participating Provinces with reliable electric supply in a sustainable manner through the use of renewable energy; (b) advance the reform of the Recipient's energy sector in particular critical areas; (c) support the Recipient's strategy to expand the

participation of the private sector in the provision of electricity in the rural areas of the Participating Provinces, as well as strengthen the capacity of Participating Provinces to regulate such participation; and (d) support the creation of sustainable business operations for rural energy in Argentina.

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

Part A: Electricity Generating Equipment for Rural Markets

1. Financing the installation by Existing Concessionaires of about 39,500 Solar Home Systems in individual households in rural areas of Participating Provinces.
2. Financing the installation by Existing Concessionaires of about 400 Solar Home Systems in public provincial institutions (such as public schools, medical centers and police stations) in rural areas of Participating Provinces.
3. Financing the installation by Existing Concessionaires of: (a) decentralized electricity supply systems (which may consist of mini-hydro (run of the stream) plants, wind turbines, diesel plants or hybrid plants operated by diesel/wind or diesel/solar or solar/wind means and shall constitute the least-cost solution for providing electricity under the circumstances) to provide collective grid electricity service to about 2,200 households living in small communities in Participating Provinces; or (b) other non-greenhouse gas emitting and non-solar electricity supply systems (which shall constitute the least-cost solution for providing electricity under the circumstances) to provide non-grid electricity service to individual users in rural areas of Participating Provinces.
4. Financing the installation by New Concessionaires of about 26,000 Solar Home Systems in individual households in rural areas of Participating Provinces.
5. Financing the installation by New Concessionaires of about 700 Solar Home Systems in public provincial institutions (such as public schools, medical centers and police stations) in rural areas of Participating Provinces.
6. Financing the installation by New Concessionaires of: (a) decentralized electricity supply systems (which may consist of mini-hydro (run of the stream) plants, wind turbines, diesel plants or hybrid plants operated by diesel/wind or diesel/solar or solar/wind means and shall constitute the least-cost solution for providing electricity under the circumstances) to provide collective grid electricity service to about 1,350 households living in small communities in Participating Provinces; or (b) other non-greenhouse gas emitting and non-solar electricity supply systems (which shall constitute the least-cost solution for providing electricity under the circumstances) to provide non-grid electricity service to individual users in rural areas of Participating Provinces.

Part B: Wind Home Systems

Carrying out a pilot demonstration program which consists of the turn-key installation of Wind Home Units (equivalent to 50 Watt-peak capacity) in two rural communities (one in a province selected by the Recipient and the other in a different province selected by the Recipient) of no more than 100 households each.

Part C: Capacity Building

1. Carrying out a market structure study in each Participating Province for purposes of: (a) determining the scope of the rural electricity market; (b) determining the willingness of the rural population to pay for electric services; (c) establishing electric tariff levels and structure for said market; (d) evaluating the economic and financial viability of servicing said market; and (e) assessing the risks in servicing said market.
2. Creating performance standards and certification procedures for purposes of ensuring an efficient, reliable and rational development of solar photovoltaic home systems in Argentina.
3. Carrying out a promotion and public education campaign in the Recipient's territory with respect to the contents of the Project.
4. Carrying out feasibility studies concerning the installation of centralized renewable energy systems for rural areas of Participating Provinces.

5. Carrying out a study to assess the current availability of direct current appliances and their compatibility with renewable energy systems.
6. Creating a database to improve solar resource information available in Argentina and another database to improve wind resource information available in Argentina, as well as providing training and acquiring and utilizing equipment required therefor.
7. Designing and carrying out workshops for rural market concessionaires to better serve their clientele.
8. Carrying out a study on means to increase competition in power transmission and distribution in Argentina.
9. Preparing a catalog of Argentine hydroelectric power projects having potential for private sector participation.
10. Carrying out a review of the Recipient's existing policy on the efficient use of energy.
11. Carrying out a study on Argentine energy export options.
12. Establishing a national policy and strategy for the use of renewable energy in urban and rural areas in Argentina.
13. Carrying out a training program to strengthen the capacity of the staff of the provincial regulatory agencies of the Participating Provinces with respect to technical, economic, financial and institutional aspects related to Solar Home Systems and other types of renewable energy systems.

Part D: Project Administration

1. Providing technical assistance, office equipment and supplies to the PCU to assist SE in the monitoring, administration and supervision of the Project.
2. Hiring a Project coordinator for each PIU.

* * *

The Project is expected to be completed by March 31, 2005.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Installation Thereof

Part A: General

Goods and installation thereof shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of Contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$500,000 equivalent or more each.

(b) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2

thereto shall apply to goods manufactured in the territory of the Recipient.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$10,300,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$2,100,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Selection of Turn-Key Contractors and New Concessionaires

Each Concession Agreement II, as well as each contract for turn-key installation under Part B of the Project, shall be awarded on the basis of international competitive bidding procedures in accordance with the provisions of Section II of the Guidelines, subject to the provisions of paragraph 3.13 (a) thereof. The installation, goods and services required for carrying out its portion of the Project shall then be procured in accordance with the applicable procedures of said Concession Agreement II concessionaires or turn-key contractors, as the case may be.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (a) each contract for goods estimated to cost the equivalent of \$500,000 or more; and (b) the award of Concession Agreements II and turn-key contracts under Part C.3 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part C.5 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Parts C.3, C.7, C.13, D.1 and D.2 of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services under Parts C.3, C.7, C.13, D.1 and D.2 of the Project may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

(c) Notwithstanding the provisions of Parts D.1 and D.2 (a) and (b) of this Section, prior review and approval by the Bank of terms of reference shall be required to award any contract for consultant services. 3. Post Review With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this GEF Grant Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of installation, goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this GEF Grant Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the 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 the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent

withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts 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 Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Recipient 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 Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant 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 Recipient out of the Special Account, the Recipient 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 the Special Account:

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

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this GEF Grant Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. 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 the 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 the 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 Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the 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 the Special Account shall be made until the Recipient 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 the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this GEF Grant Agreement, including the General Conditions.

SCHEDULE 5

Terms and Conditions of Participation Agreements

Each Participation Agreement shall provide, inter alia, that:

(a) the Recipient shall on a grant basis transfer funds (chargeable to the Loan and GEF Trust Fund Grant), to the Participating Province, to reimburse the Participating Province for the amounts, set forth in paragraph (e) (1) through (e) (14) of this Schedule, paid by the Participating Province to the Concessionaire;

(b) for amounts owed by the Participating Province to the Concessionaire for purposes of Part A of the Project (other than those amounts obtained by the Participating Province from the Recipient pursuant to paragraph (a) of this Schedule), the Participating Province shall draw on its allotment of funds from the Fondo Especial de Desarrollo Eléctrico del Interior administered by CFE;

(c) the Participating Province shall carry out Part A of the Project (as provided in paragraph (d) below) with due diligence and efficiency and in conformity with appropriate technical, administrative, financial and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for implementing such Part A of the Project;

(d) in the event that: (A) the Existing Concessionaire has agreed to participate in the installation of the systems referred to in Parts A.1 through A.3 of the Project, the Participating Province shall, under terms and conditions satisfactory to the Bank, enter into an agreement amending the Existing Concessionaire's concession agreement with the Participating Province, thus transforming said agreement into a new document (the Concession Agreement I); and (B) there is no Existing Concessionaire or the Existing Concessionaire has not agreed to participate in the installation of the systems referred to in Parts A.1 through A.3 of the Project, then the Participating Province shall: (1) select a New Concessionaire for purposes of carrying out the installation of the systems referred to in Parts A.4 through A.6 of the Project in accordance with the procurement procedures set forth in Part C.3 of Section I of Schedule 3 to this GEF Grant Agreement; and (2) immediately thereafter enter into a concession agreement (the Concession Agreement II) with the New Concessionaire, under terms and conditions satisfactory to the Bank;

(e) the Participating Province shall reimburse to the Concessionaire in Argentine currency a portion of the installation cost of the corresponding SHS or other electricity supply systems under Part A of the Project, which portion shall include amounts equivalent to the following:

(1) \$3.10 per Watt-peak capacity of any size of SHS installed;

(2) \$125 for each SHS's unit of 50 Watt-peak capacity installed by the Concessionaire during the first two years of the effectiveness of the Concession Agreement;

(3) \$120 for each SHS's unit of 50 Watt-peak capacity installed by the Concessionaire during the third year of the effectiveness of the Concession Agreement;

(4) \$105 for each SHS's unit of 50 Watt-peak capacity installed by the Concessionaire during the fourth year of the effectiveness of the Concession Agreement;

(5) \$70 for each SHS's unit of 50 Watt-peak capacity installed by the Concessionaire during the fifth year of the effectiveness of the Concession Agreement;

(6) \$105 for each SHS's unit of 70 Watt-peak capacity installed by the Concessionaire during the first two years of the effectiveness of the Concession Agreement;

(7) \$100 for each SHS's unit of 70 Watt-peak capacity installed by the Concessionaire during the third year of the effectiveness of the Concession Agreement;

(8) \$90 for each SHS's unit of 70 Watt-peak capacity installed by the Concessionaire during the fourth year of the effectiveness of the Concession Agreement;

(9) \$60 for each SHS's unit of 70 Watt-peak capacity installed by the Concessionaire during the fifth year of the effectiveness of the Concession Agreement;

(10) \$85 for each SHS's unit of 100 Watt-peak capacity installed by the Concessionaire during the first two years of the effectiveness of the Concession Agreement;

(11) \$80 for each SHS's unit of 100 Watt-peak capacity installed by the Concessionaire during the third year of the effectiveness of the Concession Agreement;

(12) \$70 for each SHS's unit of 100 Watt-peak capacity installed by the Concessionaire during the fourth year of the effectiveness of the Concession Agreement;

(13) \$45 for each SHS's unit of 100 Watt-peak capacity installed by the Concessionaire during the fifth year of the effectiveness of the Concession Agreement; and

(14) 25% of the costs of goods and installation thereof for electricity supply systems under Parts A.3 and A.6 of the Project;

(f) (i) the Participating Province shall operate and maintain throughout the course of Project implementation the PIU with staff, functions and responsibilities satisfactory to the Bank, including, inter alia, the responsibility to assist the Participating Province in the monitoring, administration and supervision of the corresponding activities under Part A of the Project; and (ii) the Recipient shall assist the Participating Province with respect to the obligations set forth in paragraph (f) (i) of this Schedule by hiring and paying, pursuant to Part D.2 of the Project, a qualified PIU Project coordinator proposed by the Participating Province;

(g) the Participating Province shall: (1) furnish to the Recipient the necessary information concerning the progress made by the Concessionaire, in carrying out the installation of the corresponding systems under Part A of the Project, so as to permit timely compliance with the terms of Section 3.05 (b) of this GEF Grant Agreement; and (2) participate in the mid-term review referred to in Section 3.05 (c) of this GEF Grant Agreement;

(h) the Participating Province shall maintain records and separate accounts in respect of its activities under Part A of the Project, and allow or carry audits thereof, so as to permit timely compliance with the terms of Section 4.01 of this GEF Grant Agreement;

(i) the Participating Province shall maintain throughout the course of Project implementation the regulatory framework and entity referred to in Section 3.01 (c) of this GEF Grant Agreement;

(j) except the Bank shall otherwise agree, the Participating Province shall not take or concur in any action which would have the effect of assigning, amending, abrogating, terminating, waiving or failing to enforce the Participation Agreement or the Concession Agreement I or the Concession Agreement II or any provision thereof;

(k) the Participating Province shall, throughout the course of Project implementation, provide full assistance to the Recipient to allow the Recipient to carry out Part C.3 of the Project in the Participating Province;

(l) the Participating Province shall ensure that its Concession Agreement requires the Concessionaire to install, operate and maintain equipment under the

Project in accordance with environmental standards and procedures that comply with local law, ensure proper recycling or disposal of batteries and solar cells, ensure proper storage, handling and disposal of fuels and ensure that mini-hydro (run of the stream) plants are set outside of protected areas, are set away from fish spawning areas and areas of particular ecological or scenic values, do not harm riverine vegetation and are regulated so as to restrict access by hunters and fishermen to sensitive areas; and

(m) the Participating Province shall ensure that the Existing Concessionaire (if any) procures goods and services for the Project, to be financed out of the proceeds of the Loan or GEF Trust Fund Grant, according to the applicable provisions of Schedule 4 to the Loan Agreement or Schedule 3 to this GEF Grant Agreement.

