

CONFORMED COPY

LOAN NUMBER 3262 MOR

as Amended

(Second Rural Electrification Project)

between

KINGDOM OF MOROCCO

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated November 11, 1992

LOAN NUMBER 3262 MOR

LOAN AGREEMENT
as Amended

AGREEMENT, dated November 11, 1992, between KINGDOM OF MOROCCO (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Project will be carried out by the National Electricity Authority (ONE) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ONE, either directly or through the Participating Municipalities (as hereinafter defined), 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 ONE;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

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

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

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

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

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

(b) "ONE Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ONE pursuant to paragraph 6 of Schedule 4 to this Agreement (as the same may be amended from time to time) and such term includes all schedules and agreements supplemental to the Project Agreement; and "ONE Subsidiary Loan" means the loan provided under the ONE Subsidiary Loan Agreement.

(c) "FEC" means the Municipal Finance Agency (Fonds d'Equipement Communal), a financial institution established and operating pursuant to the Borrower's Law (Dahir) No. 1-92-5 dated August 5, 1992, as the same may be amended from time to time.

(d) "FEC Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and FEC pursuant to paragraph 3 of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the FEC Subsidiary Loan Agreement; and "FEC Subsidiary Loan" means the loan provided under the FEC Subsidiary Loan Agreement.

(e) "Subsidiary Loan Agreements" means, collectively, the ONE Subsidiary Loan Agreement and the FEC Subsidiary Loan Agreement.

(f) "Sub-loan" means a loan made or proposed to be made by FEC out of the proceeds of the FEC Subsidiary Loan to a Participating Municipality for a Development Project.

(g) "Participating Municipality" means any rural municipality of the Borrower, referred to in Part B.5 of Annex A to Schedule 4 of this Agreement, to which FEC proposes to make or has made a Sub-loan.

(h) "Development Project" means a specific development project, referred to in Part A (1) of the Project, to be carried out by ONE, on behalf of the Participating Municipality to which the Sub-loan for such Development Project has been made, utilizing the proceeds of such Sub-loan, pursuant to the Development Project Arrangements.

(i) "Special Account A" and "Special Account B" mean, respectively, the account referred to in Section 2.02 (b) (i) of this Agreement and the account referred to in Section 2.02 (b) (ii) of this Agreement; "Special Accounts" means, collectively, Special Account A and Special Account B; and "Special Account" means either of the Special Accounts.

(j) "Category" means a category of items to be financed out of the proceeds of the Loan as set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(k) "Power Sub-sector Development Action Plan" means the Borrower's plan of actions outlined in Schedule 5 to this Agreement to be carried out in accordance with the provisions of Section 4.02 of this Agreement.

(l) "Implementation Arrangements" means the arrangements among the Borrower's Ministries of Finance, Interior and Energy and Mines and ONE referred to in paragraph 1 of Schedule 4 to this Agreement.

(m) "Basic Legislation" means the Borrower's (i) Law (Dahir) No. 1-63-226 dated August 5, 1963 pursuant to which ONE has been established and is operating, (ii) Laws (Dahir) No. 1-59-271 dated April 14, 1960 and No. 1-61-402 dated June 30, 1962 pertaining to the Borrower's financial control of public enterprises, including ONE, and (iii) the Law referred to in Section 1.02 (c) of this Agreement; all as the same may be amended from time to time.

(n) "Development Project Arrangements" means with respect to each Development Project, the arrangements, referred to in Section 2.01 (b) of the Project Agreement, to be concluded between ONE and the Participating Municipality on behalf of which ONE is to carry out said Development Project.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of one hundred fourteen million dollars (\$114,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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

(b) The Borrower shall open and maintain in a currency, a financial institution and on terms and conditions, all satisfactory to the Bank, (i) a special deposit account for the purposes of Part A (1) of the Project and (ii) a special deposit account for the purposes of Parts A (2) and B of the Project. Deposits into, and payments out of, each of the Special Accounts shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 1997 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

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

Section 2.05. (a) The Borrower shall pay interest on the

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

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

(c) For the purpose of this Section:

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

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

(iii) "Semester" means the first six months or the second six months of a calendar year.

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

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

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

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

Section 2.06. Interest and other charges shall be payable semi-annually on January 15 and July 15 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, without any limitation or restriction upon any of its other obligations under the Loan Agreement and

except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the implementation program set forth in Schedule 4 to this Agreement.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. In accordance with the Borrower's objective of improving the operations and financial efficiency of the power sub-sector, the Borrower shall take or cause to be taken all measures necessary to ensure that the Power Sub-sector Development Action Plan shall be carried out with due diligence and efficiency.

Section 4.03. In order to facilitate the proper implementation of each of ONE's investment programs referred to in Section 3.04 (b)

of the Project Agreement, the Borrower shall take all measures necessary to enable ONE to implement the plan, referred to in said Section, for the financing of said investment programs, as they shall have been approved by the Borrower.

ARTICLE V

Remedies of the Bank

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

(a) ONE shall have failed to perform any of its obligations under the Project Agreement or FEC shall have failed to perform any of its obligations under the FEC Subsidiary Loan Agreement.

(b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that ONE will be able to perform its obligations under the Project Agreement or that FEC will be able to perform its obligations under the FEC Subsidiary Loan Agreement.

(c) The Basic Legislation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ONE to perform any of its obligations under the Project Agreement or of FEC to perform any of its obligations under the FEC Subsidiary Loan Agreement.

(d) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment, or for the suspension of the operations, of either ONE or FEC.

(e) Any of the parties to the Implementation Arrangements shall have failed to perform any of its respective obligations under the Implementations Arrangements.

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

(a) Any of the events specified in paragraphs (a) and (e) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower; and

(b) any of the events specified in paragraphs (c) and (d) of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

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

(a) the Subsidiary Loan Agreements have been executed on behalf of the parties thereto; and

(b) the Implementation Arrangements have been concluded among the parties thereto.

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

(a) that the Project Agreement has been duly authorized or ratified by ONE, and is legally binding upon ONE in accordance with its terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the respective parties thereto and are

legally binding upon the said parties in accordance with their respective terms.

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

ARTICLE VII

Representatives of the Borrower; Addresses

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

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

For the Borrower:

Ministcre des Finances
Rabat
Kingdom of Morocco

Cable address:	Telex:
MINISTERE FINANCES	31936M

For the Bank:

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

Cable address:	Telex:
INTBAFRAD Washington, D.C.	248423 (RCA), 82987 (FTCC), 64145 (WUI) or 197688 (TRT)

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

KINGDOM OF MOROCCO

By

/s/ Mohamed Belkhat
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

/s/ Pieter P. Bottelier
Authorized Representative
Middle East and North Africa

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
(1) Goods:		
(a) for Part A(1) of the Project	\$35,200,000)	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 78% of local expenditures for other items procured locally
)	
(b) for Parts A(2) and B of the Project	8,200,000)	
)	
)	
(2) Works:		
(a) for Part A(1) of the Project	54,200,000)	56%
)	
(b) for Part A(2) of the Project	9,500,000)	
)	
Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(3) Consultants' services:		
(a) for Part A(1) of the Project	1,500,000)	100%
)	
(b) for Parts A (2) and B of the Project	1,200,000)	
)	
(4) Training	200,000	100% of foreign expenditures
(5) Unallocated	4,000,000	

TOTAL	114,000,000 =====	

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

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

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

(a) payments made for expenditures prior to June 14, 1991;
and

(b) a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Part B of Annex A to Schedule 4 to this Agreement.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (1) develop and upgrade the power distribution network in rural areas of the Borrower's territory; and (2) implement institutional and policy reforms designed to improve the financial and economic efficiency of the Borrower's power sub-sector.

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

Part A:

Carrying out of a program to provide electrical power to Participating Municipalities, consisting of:

- (1) the carrying out of specific development projects to construct medium- and low-voltage power lines, distribution transformers and regional operating facilities and to provide vehicles and specialized equipment required for the proper operation and maintenance thereof; and
- (2) the installation of cables and meters to connect electrical power consumers to the electrical power distribution network.

Part B:

- (1) Carrying out of a program to develop and implement: (a) a suitable national tariff policy for the Borrower's power sub-sector; (b) suitable policies and procedures for the proper monitoring and control of works related to the development of the power distribution network; and (c) suitable policies and procedures for the management of ONE's inventory; including the provision of computer hardware and software required therefor.
- (2) Carrying out a training program to strengthen the skills of ONE's staff in the design and marketing of power distribution systems, including the provision of computer hardware and software required therefor.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
January 15, 1996	2,075,000
July 15, 1996	2,155,000
January 15, 1997	2,240,000
July 15, 1997	2,325,000
January 15, 1998	2,415,000
July 15, 1998	2,510,000
January 15, 1999	2,605,000
July 15, 1999	2,710,000
January 15, 2000	2,815,000
July 15, 2000	2,920,000
January 15, 2001	3,035,000

July 15, 2001	3,155,000
January 15, 2002	3,275,000
July 15, 2002	3,400,000
January 15, 2003	3,535,000
July 15, 2003	3,670,000
January 15, 2004	3,815,000
July 15, 2004	3,960,000
January 15, 2005	4,115,000
July 15, 2005	4,275,000
January 15, 2006	4,440,000
July 15, 2006	4,610,000
January 15, 2007	4,790,000
July 15, 2007	4,975,000
January 15, 2008	5,170,000
July 15, 2008	5,370,000
January 15, 2009	5,575,000
July 15, 2009	5,795,000
January 15, 2010	6,020,000
July 15, 2010	6,250,000

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

Premiums on Prepayment

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

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.15
More than three years but not more than six years before maturity	0.30
More than six years but not more than eleven years before maturity	0.55
More than eleven years but not more than sixteen years before maturity	0.80
More than sixteen years but not more than eighteen years before maturity	0.90
More than eighteen years before maturity	1.00

SCHEDULE 4

Implementation Program

The provisions of this Schedule shall apply for the purposes of Section 3.01 of this Agreement.

General

1. The Borrower, through its Ministries of Finance, Interior, and Energy and Mines, shall enter into arrangements satisfactory to the Bank with ONE designed to ensure the proper implementation of the Project.

2. Except as the Bank shall otherwise agree, the Borrower shall ensure that 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 the Schedule to the Project Agreement.

Part A (1) of the Project

3. The Borrower shall relend the proceeds of the Loan allocated from time to time to Categories (1)(a), (2)(a) and (3)(a) to FEC under a subsidiary loan agreement to be entered into between the Borrower and FEC under terms and conditions which shall have been approved by the Bank and which shall include those set forth in Annex A to this Schedule.

4. (a) The Borrower shall (i) cause FEC to perform in accordance with the provisions of the FEC Subsidiary Loan Agreement all the obligations of FEC therein set forth, (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FEC to perform such obligations, and (iii) not take or permit to be taken any action which would prevent or interfere with such performance.

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

Parts A(2) and B of the Project

5. The Borrower shall (a) cause ONE to perform all its obligations set forth in the Project Agreement, (b) take or cause to be taken all action, including the provision of funds, facilities, services and other resources necessary or appropriate to enable ONE to perform such obligations, and (c) not take or permit to be taken any action which would prevent or interfere with such performance.

6. The Borrower shall relend the proceeds of the Loan allocated from time to time to Categories (1)(b), (2)(b), (3)(b) and (4) to ONE under a subsidiary loan agreement to be entered into between the Borrower and ONE, under terms and conditions which shall have been approved by the Bank which shall include those set forth in Annex B to this Schedule.

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

8. 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 the Project shall be carried out by ONE pursuant to Section 2.03 of the Project Agreement.

ANNEX A TO SCHEDULE 4

Terms and Conditions of the
FEC Subsidiary Loan Agreement

The provisions of this Annex shall apply for the purposes of paragraph 3 of Schedule 4 to this Agreement.

Part A

1. The principal amount of the FEC Subsidiary Loan shall be the equivalent of the aggregate amount of the principal of all Sub-loans made to Participating Municipalities.

2. The FEC Subsidiary Loan shall have a maturity of not more than twenty (20) years, inclusive of a grace period of not more than five (5) years.

3. The FEC Subsidiary Loan shall be charged on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal at least to twelve percent (12%) per annum.

4. The FEC Subsidiary Loan Agreement shall be made on further terms whereby the Borrower shall obtain rights adequate to protect the interests of the Borrower and the Bank, including that FEC shall undertake to:

(a) make Sub-loans to Participating Municipalities on the terms and conditions set forth or referred to in Part B of this Annex;

(b) exercise its rights in relation to each Development Project in such manner as to protect the interests of the Borrower, the Bank and FEC, comply with its obligations under the FEC Subsidiary Loan Agreement and achieve the purposes of the Project, and except as the Borrower and the Bank shall otherwise agree, not assign, amend, abrogate or waive any such agreement;

(c) (i) maintain procedures and records adequate to monitor and record the progress of each Development Project (including its cost and the benefits to be derived from it) and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of FEC; (ii) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each of its fiscal years audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank; (iii) furnish to the Borrower for forwarding to the Bank, as soon as available, but in any case, not later than seven (7) months after the end of each of its fiscal years: (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 Bank shall have reasonably requested; and (iv) furnish to the Bank such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Bank shall from time to time reasonably request;

(d) at the request of the Bank, exchange views with the Bank with regard to the progress of the Development Projects, the performance of its obligations under the FEC Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan; and

(e) promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Part A(1) of the Project, the accomplishment of the purposes of the Loan, or the performance by FEC of its obligations under the FEC Subsidiary Loan Agreement.

Part B

The principal terms and conditions set forth or referred to in this Part B shall apply for the purposes of Part A.4 (a) of this Annex.

1. The principal amount of each Sub-loan made to a Participating Municipality shall be the equivalent in the currency of the Borrower

(determined as of the date or respective dates of withdrawal from the Loan Account or payment out of Special Account A) of the value of the currency or currencies so withdrawn or paid out to or on the order of ONE on account of the cost of goods, works and services to be financed out of the proceeds of the Loan allocated from time to time to Categories (1)(a), (2)(a) and (3)(a) for the Development Project carried out under Part A(1) of the Project by ONE on behalf of the said Participating Municipality for which the Sub-loan is made.

2. Each Sub-loan shall be charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at a rate equal at least to 13.5% per annum.

3. Each Sub-loan shall be made for a period not exceeding twenty (20) years, inclusive of a grace period not exceeding five (5) years.

4. Each Sub-loan shall be made on further terms whereby FEC shall obtain, by written contract with the Participating Municipality or other appropriate legal means, rights adequate to protect the interests of the Borrower, the Bank and FEC, including:

(a) that FEC shall have the right to suspend or terminate the right of the Participating Municipality to the use of the proceeds of the Sub-loan upon failure by such Participating Municipality to perform its obligations under its contract providing for the Sub-loan; and

(b) that each Participating Municipality shall undertake to:

- (i) maintain at all times the Development Project Arrangements to which it is a party and, without limitation on said arrangements, provide all assistance to ONE as shall be necessary to enable ONE properly (A) to carry out and operate the Development project with due diligence and efficiency and in accordance with appropriate standards and practices, and (B) to procure the goods, works and services required for the Development Project and to be financed out of the proceeds of the Loan in accordance with the provisions of the Project Agreement;
- (ii) maintain adequate records in respect of the Development Project and provide, promptly, as needed the funds, facilities, and other resources required for the purpose;
- (iii) provide all assistance required on its part to enable the Borrower, the Bank and FEC to inspect the goods financed out of the proceeds of the Sub-loan, and the sites, works, plants and construction included in the Development Project, the operation thereof, and any relevant records and documents; and
- (iv) prepare and furnish to FEC, for forwarding to the Borrower and the Bank, if so requested by the Borrower or the Bank, all such other information as the Borrower, the Bank or FEC shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating Municipality and to the benefits to be derived from the Development Project.

5. Each Sub-loan shall be made only: (a) to a municipality located in a rural area which shall have (i) been selected by the Borrower and approved by the Bank, and (ii) demonstrated its creditworthiness to the satisfaction of FEC on the basis of guidelines satisfactory to the Bank; (b) for a Development Project

which (i) shall have been selected by the Borrower and approved by the Bank, and (ii) is technically and financially feasible, as determined to the satisfaction of FEC on the basis on guidelines satisfactory to the Bank; and (c) on condition that the Participating Municipality and ONE shall have concluded Development Project Arrangements in respect of said Development Project.

ANNEX B TO SCHEDULE 4

Terms and Conditions of the ONE Subsidiary Loan Agreement

The provisions of this Annex shall apply for the purposes of paragraph 6 of Schedule 4 to this Agreement.

1. The principal amount of the ONE Subsidiary Loan shall be the equivalent in the currency of the Borrower (determined as of the date or respective dates of repayment by ONE) of the equivalent in dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of Special Account B) of the value of the currency or currencies so withdrawn or paid out, on account of the cost of goods, works and services for Parts A (2) and B of the Project to be financed out of the proceeds of the Loan allocated from time to time to Categories (1)(b), (2)(b), (3)(b) and (4).
2. The ONE Subsidiary Loan shall have a maturity of not more than twenty (20) years, inclusive of a grace period of not more than five (5) years.
3. The Subsidiary Loan shall be charged on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate equal at least to the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.05 of this Agreement.

SCHEDULE 5

Power Sub-sector Development Action Plan

For purposes of Section 4.02 of this Agreement, the Power Sub-sector Development Action Plan shall consist of the following:

A. Tariff Study

The Borrower shall:

1. Carry out, under terms of reference satisfactory to the Bank, a study to develop structures and levels of electricity tariffs for its power sub-sector which take into account the long run marginal cost of electric power, as well as the Borrower's objective of ensuring the financial soundness of ONE and other public electricity distribution facilities;
2. define and decide, not later than June 30, 1993, upon the basic elements of its national tariff structure for its power sub-sector, and furnish to the Bank promptly upon its completion a copy of said study, together with the recommendations based thereon; and
3. afford the Bank a reasonable opportunity to exchange views with the Borrower on the results and conclusions of said study, and thereafter take all measures necessary at the time of each tariff adjustment to ensure the gradual implementation of such recommendations so as to put into effect, not later than December 31, 1993, its national tariff policy for its power sub-sector based on the recommendations of said study, as they shall have been agreed upon between the Borrower and the Bank.

B. Sector Arrears

1. The Borrower shall take all measures necessary to ensure that:
 - (a) each of its public agencies shall pay the balance of its

electricity bills due and payable as at June 30, 1992, in three (3) equal installments, with the first installment due not later than December 31, 1992, the second installment due not later than 31, 1993, and the third installment due not later than December 31, 1994;

(b) each of its public agencies shall pay its electricity bills, other than those referred to in sub-paragraph 1 (a) of this Part B, promptly upon the issuance thereof in accordance with guidelines satisfactory to the Bank; and

(c) beginning with its fiscal year ending December 31, 1992, budgetary allocations shall be made for each fiscal year in the relevant budget or budgets of its public agencies in amounts sufficient to ensure the fulfillment of the obligations set forth in sub-paragraphs 1 (a) and 1 (b) of this Part B.

2. For purposes of this Section:

(a) the term "public agencies" means the Borrower's ministries, departments and political or administrative subdivisions; and

(b) the term "electricity bills" means, in respect of each of the public agencies, the amounts periodically billed by ONE and other electricity distribution utilities to such public agencies for the supply of electricity and the provision of related works and services by ONE and such other electricity distribution utilities to such public agencies.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in respect of Special Account A, Categories (1)(a), (2)(a) and (3)(a) and, in respect of Special Account B, Categories (1)(b), (2)(b), (3)(b) and (4);

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

(c) the term "Authorized Allocation" means, in respect of Special Account A, an amount equivalent to \$5,000,000, and, in respect of Special Account B, an amount equivalent to \$900,000, to be withdrawn from the Loan Account and deposited in the respective Special Account pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the Special Accounts 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the said Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits which do not exceed the aggregate amount of the respective Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit in the said Special Account such amount or amounts as the Borrower shall have requested.

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

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

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

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

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

- (b) Special Account A, once the total unwithdrawn amount of the Loan allocated to the Categories (1) (a), (2) (a), and (3) (a), less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to expenditures to be financed thereunder shall equal the equivalent of \$10,000,000; or

- (c) Special Account B, once the total unwithdrawn amount of the Loan allocated to the Categories (1) (b), (2) (b), (3) (b) and (4), less the amount of any outstanding special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to expenditures to be financed thereunder shall equal the equivalent of \$1,800,000.

Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the respective eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective 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 Special Account A or Special Account B: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective 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 respective Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

