

CONFORMED COPY

LOAN NUMBER 7217-DO

Loan Agreement

(Power Sector Technical Assistance Project)

between

DOMINICAN REPUBLIC

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 9, 2004

LOAN NUMBER 7217-DO

LOAN AGREEMENT

AGREEMENT, dated March 9, 2004, between the Dominican Republic (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

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;

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 for Fixed-Spread Loans" of the Bank dated September 1, 1999 (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Administration Arrangement" means any of the arrangements set forth in Section 3.06 (a) of this Agreement;

(b) "Annual Action Plan" means any of the plans referred to in Section 3.07 (a) of this Agreement;

(c) "Beneficiary Institution" means a public entity which has partial or total jurisdiction over one or more Project activities to be included in a given Annual Action Plan;

(d) "CDE" means *Compañía Dominicana de Electricidad*, the Borrower's Power Company;

- (e) “CDEEE” means *Corporación Dominicana de Empresas Eléctricas Estatales*, the Borrower’s Conglomerate of Electric Companies;
- (f) “CNE” means *Comisión Nacional de Energía*, the Borrower’s National Energy Commission;
- (g) “DISCOS” means Electricity Distribution Companies;
- (h) “EDENORTE” means *Empresa Distribuidora de Electricidad del Norte*;
- (i) “EDESTE” means *Empresa Distribuidora de Electricidad del Este*;
- (j) “EDESUR” means *Empresa Distribuidora de Electricidad del Sur*;
- (k) “EGEHID” means *Empresa de Generación Hidroeléctrica Dominicana*, the Borrower’s hydro generation company;
- (l) “ETED” means *Empresa de Transmisión Eléctrica Dominicana*, the Borrower’s Transmission Company;
- (m) “FMR” means each financial monitoring report prepared in accordance with Section 4.02 of this Agreement;
- (n) “FONPER” means *Fondo Patrimonial de las Empresas Reformadas*, the Borrower’s Patrimonial Fund;
- (o) “GENCOS” means the generation companies that operate on the Borrower’s territory;
- (p) “General Electricity Law” means the Borrower’s Electricity Law No. 125-01;
- (q) “IPP” means Independent Power Producers;
- (r) “OC” means *Organismo Coordinador*, the Borrower’s Coordinating Body;
- (s) "Operational Manual" means the manual referred to in Section 3.05 (a) of this Agreement;
- (t) “PAEF” means *Programa de Apoyo a la Eliminación del Fraude Eléctrico*, the Borrower’s Anti-Fraud Program;

(u) “Performance Indicators” means the indicators set forth in the Supplemental Letter (as hereinafter defined), for monitoring and evaluating progress towards the attainment of Project objectives;

(v) “PIU” means the Project Implementation Unit set forth in Section 3.04 of this Agreement;

(w) “PPA” means Power Purchase Agreements;

(x) “PRA” means *Programa de Reducción de Apagones*, the Borrower’s Blackout Reduction Program, created pursuant Presidential Decree No. 1080-01, dated November 3, 2001;

(y) “PROTECOM” means *Oficina de Protección al Consumidor*, the Borrower’s Consumer Protection Office;

(z) “SIE” means *Superintendencia del Electricidad*, the Borrower’s Electricity Superintendence;

(aa) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(bb) “Supplemental Letter” means the letter of even date herewith from the Borrower to the Bank setting forth the Performance Indicators.

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 this Agreement, an amount equal to seven million three hundred thousand Dollars (\$7,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

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 and to be financed out of the proceeds of the Loan and in respect of the front-end fee referred to in Section 2.04 of this Agreement and any premium in respect of an Interest Rate Cap or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

- (b) (i) The Borrower may, for the purposes of carrying out the Project, open and maintain in Dollars a separate special deposit account (the Special Account) in its Central Bank on terms and conditions satisfactory to the Bank; and
- (ii) deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on April 15 and October 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;

- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall: (a) cause CNE to carry out the Project, with due diligence and efficiency and in conformity with appropriate financial, administrative, legal, and technical practices; and: (b) shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. 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 Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

- (a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan designed to ensure the continued achievement of the Project’s objectives; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. Throughout the course of the Project implementation, the Borrower shall cause CNE to maintain a Project implementation unit (PIU) within CNE. The Borrower shall cause CNE to ensure that the PIU is at all times during the implementation of the Project, headed by a Project manager, assisted by staff in numbers and with experience and qualifications acceptable to the Bank, operating under terms of reference satisfactory to the Bank, and selected in accordance with competitive and transparent procedures satisfactory to the Bank, all as set forth in the Operational Manual.

Section 3.05. (a) The Borrower shall cause CNE to, without limitation to the other provisions of this Agreement, carry out the Project in accordance with an operational manual, satisfactory to the Bank and to be prepared by the PIU, said manual to include specific rules and procedures for Project implementation; and

(b) the Operational Manual may be amended by the Borrower from time to time, in a manner satisfactory to the Bank, to facilitate continued Project implementation. In case of any conflict between the terms of the Operational Manual and those of this Agreement, the terms of this Agreement shall prevail.

Section 3.06. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall cause CNE to enter into separate inter-institutional administrative arrangements satisfactory to the Bank (the Administration Arrangements), one with each one of the Beneficiary Institutions, setting forth their respective responsibilities in the implementation of the Project.

(b) The Borrower shall cause CNE to exercise its rights and carry out its obligations under the Administration Arrangements in such a manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank may otherwise agree, the Borrower shall cause CNE not to assign, amend, abrogate, suspend, waive, terminate or fail to enforce any Administration Arrangement or any provision thereof.

Section 3.07. The Borrower shall cause CNE to:

(a) not later than November 30 of each year of Project implementation, starting in year 2003, furnish to the Bank, for its approval, an annual action plan, each said plan to include, *inter alia*: (i) the Project activities to be carried out by the Borrower with the assistance of the Beneficiary Institutions, during the calendar year following the presentation of each said plan; and (ii) the procurement plan and disbursement schedule for each of said Project activities;

(b) thereafter implement each said Annual Action Plan in accordance with its terms;

(c) carry out the Annual Action Plan for the year 2003 as approved by the Bank prior to the date of this Agreement; and

(d) by no later than November 30 of each year during the implementation of the Project, starting in the year 2004, prepare and furnish to the Bank a report, of such scope and in such detail as the Bank shall reasonably request, on the results of the progress of the carrying out of the Project and the Annual Action Plan (as measured in accordance with the indicators set forth in the Supplemental Letter).

Section 3.08. Without limitation to the provisions of Section 3.01 above, the Borrower shall:

(a) make available an amount in Dollars equivalent to three million seven hundred thousand Dollars (\$3,700,000) as counterpart funds for the Project; and

(b) establish and thereafter maintain, until the completion of the Project, an account (the Project Account) in a commercial bank acceptable to the Bank, with an initial deposit of three hundred thousand Dollars (\$300,000) equivalent prior to the Effective Date.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause CNE to maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall cause CNE to:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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 four months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on

such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Bank may 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 cause CNE to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 3.07 (d) of this Agreement, the Borrower shall cause CNE to prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and

explains variances between the actual and planned Project implementation; and

- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Loan, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01(c) of the General Conditions:

- (a) that the Operational Manual has been issued and put into effect;
- (b) that the PIU has been established and staffed as set forth in Section 3.04 of this Agreement;
- (c) that the independent auditors referred to in Section 4.01 (b) (i) of this Agreement have been contracted to carry out the audits referred to in said section; and
- (d) the Bank has been furnished with documentary evidence, satisfactory to it, confirming the availability of the funds referred to in Section 3.08 (b) of this Agreement.

Section 5.02. The date June 7, 2004 is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Secretaría de Estado de Finanzas
Avenida México # 45
Santo Domingo, República Dominicana

Facsimile:

(809) 682-2353

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:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

DOMINICAN REPUBLIC

By /s/ Carlos Despradel

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marco Mantovanelli

Acting Regional Vice President
Latin America and the Caribbean

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(1) Goods	300,000	100% of foreign expenditures and 75% of local expenditures
(2) Consultants' services	5,500,000	85% of foreign consultants and 80% of local consultants
(3) Training	300,000	100%
(4) Operating Costs	400,000	100%
(5) Unallocated	727,000	100%
(6) Front-end fee	73,000	Amount due under Section 2.04 of this Agreement
(7) Premia for Interest Rate Caps and Interest Rate Collars	- 0 -	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>7,300,000</u>	

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;

(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;

(c) the term “training” means the non-consultant expenditures incurred by the Borrower in connection with the carrying out of the Project, including, *inter alia*, workshops, seminars, conferences, study tours, foreign and local travel costs and *per diem* of trainees, course fees, rental of facilities, and training materials; and

(d) the term “operating costs” means the non-consultant expenditures incurred by the Borrower in connection with the daily operation of the PIU, maintenance of equipment and vehicles, rental of office facilities, office utilities, supplies and materials, and domestic travel and per diem of PIU staff, which expenditures would not have been incurred absent the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$400,000, may be made on account of payments made for expenditures within one year before the date of this Agreement but after May 8, 2003.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for “training” and “operating costs”, plus items not subject to prior review under Schedule 4, Section I, Part D.2, and Schedule 4, Section II, Part D.2, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to provide technical assistance to the Borrower to: (a) reinforce its transmission network and restore the financial sustainability of the power sector; (b) strengthen its power sector institutions in charge of consumer protection, policy-making and portfolio management; (c) increase the supply of affordable energy to the poor; and (d) reduce potential negative environmental impacts.

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: Regulation and Consumer Protection

Improving the Borrower's regulatory and consumer protection performance, through:

1. provision of technical assistance to carry out a comprehensive assessment of SIE's role and capabilities, including, *inter alia*: (a) areas within SIE's responsibility; (b) SIE's dealings with third parties; (c) SIE's internal procedures for preparing and issuing regulations; (d) SIE's role regarding policy and its interaction with CNE; (e) SIE's design and implementation of a tariffs plan; (f) SIE's regulations related to dispatch procedures, billing procedures and wholesale market operations; (g) SIE's standards for service quality, metering and billing; and (h) SIE's staffing and training needs;
2. provision of technical assistance and training (including study tours) to SIE and OC's staff, in the areas of regulation, wholesale power market administration, and power dispatch;
3. carrying out of technical studies for SIE and OC, including studies on the charge for ancillary services and managing congestion in the transmission network;
4. provision of technical assistance to PROTECOM's staff in the areas of: (a) consumer protection procedures; (b) customer service requirements; (c) monitoring service and supply quality; and (d) monitoring billing accuracy and timeliness;
5. provision of technical assistance to design a new legal appeal mechanism for SIE's regulatory decisions; and
6. provision of technical assistance to assess the power sector market performance and suggest changes.

Part B: Policy Formulation

1. Strengthening institutional capacity of CNE and FONPER, aimed at improving policy formulation and portfolio management of the power sector, through:

(a) provision of technical assistance and equipment (as necessary) to: (i) carry out a CNE policy analysis, including, *inter alia*, an extensive assessment of the Borrower's energy strategy, and specific technical studies to support the formulation of energy policy in the area of energy planning; (ii) use simulation and planning software; and (iii) provide hands-on assistance and on-the-job training by experts;

(b) provision of technical assistance and equipment (as necessary) to strengthen CNE's capacity to collect, analyze and disseminate information to the public, including, *inter alia*: (i) determining functional requirements of an energy information system; (ii) establishing technical requirements and specifications for equipment; (iii) purchasing and installation of equipment; and (iv) disseminating information through publications and a web page;

(c) provision of technical assistance and training to CNE's staff in power sector planning and demand forecasting, including training for information system use, management, operation and maintenance;

(d) carrying out of an independent assessment of PAEF's performance, including issuing recommendations for any necessary improvements; and

(e) provision of technical assistance and training to strengthen FONPER's capacity, including: (i) carrying out of a study to evaluate the performance of the Borrower's portfolio in power generation and distribution companies where it has an interest as investor; (ii) design and implementation of a staff training program; and (iii) carrying out of a periodic review of business strategy and results.

2. Supporting consensus building on power sector reforms through:

(a) provision of technical assistance and training (including the carrying out of workshops and seminars) to carry out an assessment of various options for sector reform;

(b) provision of technical assistance to carry out an assessment of the potential scenarios for sector sustainability;

(c) design and implementation of a public dissemination campaign to inform sector related issues and reform options; and

(d) carrying out of consultations with key stake holders and focus groups, including interviews with civil society representatives and the private sector.

Part C: Transmission and Power Market Development

Improving the performance of critical power sector companies and supporting the finalization of the second-generation reforms started by the Borrower in the power sector, including, *inter alia*:

1. provision of technical assistance to create a business plan for ETED and EGEHID;
2. design and implementation of training programs for ETED staff regarding specialized techniques for operations and maintenance;
3. provision of technical assistance to identify alternatives for private sector participation in transmission, within the boundaries established by the General Electricity Law; and
4. design of a comprehensive transmission expansion plan and an execution strategy, including: (a) a comprehensive billing metering system; (b) an evaluation of the effect of an extensive installation of static capacitors on the distribution system; and (c) the provision of technical assistance to review the methodology used for establishing transmission charges.

Part D: Electricity for the Poor

Improving the delivery of electricity in poor urban neighborhoods, and increasing the coverage of electricity in rural areas, including, *inter alia*:

1. provision of technical assistance and training to PRA's staff to: (a) analyze and improve the Borrower's blackout reduction program, including the design and implementation of a system for continuous monitoring of PRA effectiveness; and (b) redesign PRA, including: (i) surveys and studies to redesign PRA in line with the Borrower's objectives; and (ii) a blueprint of the new PRA;
2. provision of technical assistance to support CDEEE's rural electrification program, including: (a) carrying out of sustainability studies; (b) design of a rural electrification program; and (c) assess innovative approaches and technology; and
3. carrying out of a social impact assessment to: (a) enhance the targeting and the reach of electricity to the urban and rural poorest population; (b) strengthen institutional mechanisms for consumer protection; and (c) minimize the fraud problem in the power sector.

Part E: Environmental Protection

Protecting the environment by analyzing and addressing the power sector's environmental issues, including, *inter alia*:

1. carrying out an environmental evaluation to: (a) provide a complete environmental diagnosis; (b) identify appropriate power project sites; (c) recommend procedures for developing environmental standards for different types of power projects, including thermal plants, hydro plants, wind power plants, transmission lines, distribution lines and transformers; and (d) design and implement an environmental action plan to mitigate potential negative impacts;

2. carrying out of environmental impact assessments and impact studies for: (a) thermal generators regarding allowable levels of emissions, sound levels, and residues; (b) hydro plants regarding water quality controls and watershed conditions; (c) transmission projects, including archaeological and cultural constraints; and (d) power distribution companies, including lines, substations and transformers with emphasis on PCB disposal;

3. provision of technical assistance to: (a) monitor compliance with environmental norms; and (b) design incentive systems to encourage environmental compliance and avoid penalties for infringement; and

4. provision of technical assistance for: (i) the establishment of an environmental unit within CNE; and (ii) training to CNE's staff on policy formulation regarding environmental issues.

Part F: Project Coordination

Strengthening the institutional, administrative, financial, procurement, and technical capabilities of the PIU to carry out its obligations under the Project (through the provision of technical assistance and training).

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each April 15 and October 15	
Beginning April 15, 2009 through April 15, 2020	4.17%
On October 15, 2020	4.09%

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

Goods 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

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.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 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

(a) With respect to each contract procured in accordance with Part B above, as well as the first two contracts procured in accordance with Part C.1 above, and the first contract procured in accordance with Part C.2 above, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract to be procured in accordance with the procedures referred to in Part C.2 above, the following procedures shall apply:

- (i) prior to the selection of any supplier or the execution of any contract under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) 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 Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. 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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services such as development of power sector regulation and energy policy issues and option studies rendered by consulting firms may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget

Services such as design and implementation of information systems rendered by consulting firms, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection

Services such as accounting audits rendered by consulting firms, estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications

Services such as advice on legal and regulatory issues rendered by consulting firms, 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.

5. Individual Consultants

Services rendered by individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines up to an aggregate amount of \$3,000,000, shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every months during the execution of the Project, and each such updating shall be furnished to the Bank for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Bank.

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 2, 3 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 report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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 5

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 Agreement in respect of the Project;

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

(c) the term “Authorized Allocation” means the amount of \$600,000 to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$300,000 until the Bank has determined, based on the level and frequency of the withdrawals, that a higher amount is necessary.

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 Borrower 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 Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the 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

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 the respective Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this 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 Accounts;

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

(d) once the total unwithdrawn amount of the Loan 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in 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 Borrower 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 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 the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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