
GEF TRUST FUND GRANT NUMBER 056023-PE

Global Environment Facility Trust Fund Grant Agreement

(Rural Electrification Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Acting as an Implementing Agency of the Global Environment Facility

Dated *July 19*, 2006

GEF TRUST FUND GRANT NUMBER 056023-PE

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated July 19, 2006 between REPUBLIC OF PERU (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

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

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

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) the Recipient has also requested the Bank to provide additional financing for the Project and by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equivalent to fifty million Dollars (\$50,000,000) (the Loan); and

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

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.01 (c), 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) the term "Bank", wherever used in the General Conditions, other than in Sections .01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
- (ii) the term "Borrower", wherever used in the General Conditions, means the Recipient;

- (iii) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
- (iv) the term "Loan" and "loan", wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term "Loan Account", wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) a new subparagraph is added after subparagraph (o) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF."; and
- (vii) the words "corrupt or fraudulent" in paragraph (c) of Section 6.03 are replaced with the words "corrupt, fraudulent, collusive or coercive".

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

(a) "Administrative Financial Agreement" means an agreement (*comisión de confianza*) executed between PEU and a Participating Bank outlining in specific terms the conditions for: (i) payments made for Rural Electrification Sub-Projects under Parts A of the Project; and (ii) loans made for Small Hydro Sub-Projects under Part D of the Project, in accordance with the procedures set forth in the Project Operational Manual, in paragraph 6 of Schedule 4 to this Agreement for loans made for Small Hydro Sub-Projects under Part D of the Project, and in paragraph 6 of Schedule 5 to the Loan Agreement for payments made for Rural Electrification Sub-Projects under Parts A of the Project;

(b) "Annual Operation Plan" means a plan to be prepared by PEU and detailing activities to be financed under the Project as updated each year in accordance with paragraph 4 of Schedule 4 to this Agreement and paragraph 4 of Schedule 5 to the Loan Agreement;

(c) "*Banco de la Nación*" means the Recipient's public sector bank created and operating, *inter alia*, under the Recipient's Law No. 16000, dated January 27, 1966 and the Recipient's Legislative Decree No. 199, dated June 12, 1981;

(d) "Eligible Categories" means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) "Eligible Expenditures" means the expenditures for goods, works, services and consultant services referred to in Section 2.02 of this Agreement;

(f) "Environmental and Social Management Framework" means a document dated December 5, 2005 (published and available to the public on the website www.minem.gob.pe/ministerio/index.asp under the title "marco_evaluacion.pdf"), outlining environmental and social implementation procedures, mitigation measures and monitoring procedures for the Project as well as measures for chance finding of cultural heritage property, as said framework may be amended from time to time with the Bank's prior approval;

(g) "Facility Agreement" means an agreement executed between MEM and a selected Fund Manager for outlining in specific terms the conditions for selecting, financing and managing activities under Part D of the Project in accordance with procedures set forth in the Project Operational Manual and in paragraph 7 of Schedule 4 to this Agreement;

(h) "FMR" means each report prepared in accordance with Section 4.02 of this Agreement;

(i) "Fund Manager" means the private company to be selected to manage activities under Part D of the Project, as contracted in accordance with Section III of Schedule 3 to this Agreement under a Facility Agreement;

(j) "Grant Special Account" means the account referred to in Part B of Schedule 1 of this Agreement;

(k) "Investment Committee" (*Comité de Inversión*) means a committee to be created and appointed by the Project Directory Committee and in charge of approving Small Hydro Sub-Projects under Part D of the Project;

(l) "Indigenous Peoples' Framework" means a document dated January 3, 2006 (published and available to the public on the website www.minem.gob.pe/ministerio/index.asp under the title "marco_desarrollo.pdf"), outlining implementation procedures, mitigation measures and monitoring procedures for indigenous peoples under the Project, as said framework may be amended from time to time with the Bank's prior approval;

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

(n) "MEF" means *Ministerio de Economía y Finanzas*, the Recipient's Ministry of Economy and Finance;

(o) "MEM" means *Ministerio de Energía y Minas*, the Recipient's Ministry of Energy and Mines;

(p) "OSINERG" means *Organismo Supervisor de la Inversión en Energía*, the Recipient's supervisory body for energy investment, as established and operating under the Recipient's Law No. 26734, dated December 31, 1996, and the Recipient's Supreme Decree No. 054-2001-PCM, dated May 9, 2001;

(q) "Participating Bank" means a financial institution to be selected to make: (i) payments for Rural Electrification Sub-Projects under Part A of the Project, and (ii) loans for Small Hydro Sub-Projects under Part D of the Project; as contracted in accordance with Section III of Schedule 3 to this Agreement and Section III of Schedule 4 to the Loan Agreement, under an Administrative Financial Agreement, in accordance with paragraph 6 of Schedule 4 to this Agreement and paragraph 6 of Schedule 5 to the Loan Agreement;

(r) "PEU" means the Project Executing Unit (*Unidad Ejecutora del Proyecto*), the Recipient's unit within MEM as established and operating under MEM Ministerial Resolutions Nos. 208-2005-MEM/DM, dated May 30, 2005; 527-2005-MEM/DM dated December 30, 2005; and 054-2006-MEM/DM dated January 24, 2006 and in charge of the day-to-day management and implementation of the Project;

(s) "Project Directory Committee" (*Comité Directivo del Proyecto*) means the highest oversight executive and advisory body for the Project headed by the Recipient's Vice-Minister of Energy and comprising representatives from MEF and OSINERG, as established and operating under a supreme decree to be adopted by the Recipient;

(t) "Procurement Plan" means the PEU's procurement plan dated October 28, 2005 detailing procurement activities for the entire period of the Project implementation, as the same shall be updated from time to time in accordance with the provisions of paragraph 4 of Schedule 4 to this Agreement;

(u) "Project Operational Manual" means a manual satisfactory to the Bank to be approved by the Recipient's Vice-Ministry of Energy through a vice-ministerial resolution, outlining policies, financial management, procurement and disbursement procedures as well as implementation and monitoring procedures for the Project, as such manual may be amended from time to time with the Bank's prior approval, and such term includes any schedules to the Project Operational Manual, including the Indigenous Peoples' Framework, the Environmental and Social Management Framework and the Resettlement Framework;

(v) "Report-based Disbursements" means the Recipient's option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) "Resettlement Framework" means a document dated January 3, 2006 (published and available to the public on the website www.minem.gob.pe/ministerio/index.asp under the title "marco_reasentamiento.pdf"), outlining implementation procedures, mitigation measures and monitoring procedures in relation to any involuntary resettlement under the Project, as said framework may be amended from time to time with the Bank's prior approval;

(x) "Rural Electrification Provider" means a private or public company qualified in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 5 to the Loan Agreement in order to provide electricity services under Part A of the Project;

(y) "Rural Electrification Sub-Project" means a sub-project carried out or proposed to be carried out under Part A of the Project by a Rural Electrification Provider pursuant to a

Rural Electrification Sub-Project Agreement and in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 5 to the Loan Agreement;

(z) "Rural Electrification Sub-Project Subsidy" or a contribution means an agreement executed between MEM and a Rural Electrification Provider containing the terms and conditions for the financing of electricity provision under Part A of the Project in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 5 to the Loan Agreement;

(aa) "Small Hydro Designated Account" means the part of the Grant Special Account that is referred to as a sub-account in Part C.1 (a) of Schedule 1 to this Agreement;

(bb) "Small Hydro Financing Facility" means a fund to finance on a temporary basis Small Hydro Sub-Projects under Part D of the Project and to be managed by the Fund Manager in accordance with the Project Operational Manual and paragraph 7 of Schedule 4 to this Agreement;

(cc) "Small Hydro Provider" means a private company qualified in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 4 to this Agreement in order to build and operate small hydro facilities and provide hydro electricity under Part D of the Project;

(dd) "Small Hydro Sub-Project" means a sub-project carried out or proposed to be carried out under Part D of the Project by a Small Hydro Provider pursuant to a Small Hydro Sub-Project Agreement and in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 4 to this Agreement;

(ee) "Small Hydro Sub-Project Agreement" means an agreement executed among MEM, the Participating Bank and a Small Hydro Provider containing the terms and conditions for the financing of electricity provision under Part D of the Project in accordance with the criteria and procedures set forth in the Project Operational Manual and in paragraph 5 of Schedule 4 to this Agreement;

(ff) "Small Hydro Sub-Project Loan" means a loan extended or proposed to be extended to cover part of the capital cost of a Small Hydro Sub-Project; and

(gg) "SNIP" means *Sistema Nacional de Inversión Pública*, the Recipient's national system of public investment created and operating under the Recipient's Law No. 27293, dated June 28, 2000 and establishing principles, processes, methodologies and technical guidelines for every phase of public investment in the Recipient's territory.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to ten million Dollars (\$10,000,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and consultant services (including those financed through Small Hydro Sub-Projects) required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be December 31, 2011 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

Section 2.04. The Recipient's Minister at the time responsible for Finance or the Recipient's Director General at the time responsible for public indebtedness, or any person or persons whom he or she shall designate in writing is designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement, Part B of Schedule 1 to this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through PEU with due diligence and efficiency and in conformity with appropriate administrative, social, financial and public utility practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out the Project in accordance with the provisions set forth in Schedule 4 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, services and consultant services required for the Project, including those financed through Small Hydro Sub-Projects, and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient, through PEU, shall update the Procurement Plan in accordance with the provisions of paragraph 4 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 Recipient, through MEM, shall:

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

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

Section 3.04. The Recipient shall furnish or cause to be furnished to the Bank: (i) through PEU, no later than three months after the Effective Date, the contract appointing for a period of up to two years the independent auditors referred to in Section 4.01 (b) (i) of this Agreement, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III of Schedule 3 to this Agreement; (ii) no later than three months after the Effective Date, a supreme decree in form and substance satisfactory to the Bank, for the creation of the Project Directory Committee; (iii) through PEU, not later than three months after the Effective Date, evidence that an adequate financial management system for the Project, satisfactory to the Bank has been established; and (iv) no later than six months after the Effective Date, the contract appointing for a period of up to two years the procurement auditors referred to in paragraph 3(a) of Schedule 4 to this Agreement, under terms of reference and with qualifications and experience satisfactory to the Bank and in accordance with the provisions of Section III of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient, through PEU, shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient, through PEU, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), commencing with the fiscal year in which the first withdrawal under the GEF Trust Fund Grant was made, audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, 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 GEF Trust Fund Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient, through PEU, shall:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 2 of Schedule 4 to this Agreement, the Recipient, through PEU, shall prepare, or cause to be prepared and furnish to the Bank a financial monitoring report (FMR), 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 GEF Trust Fund Grant, 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, 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 semester 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 semester; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

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

(a) The Recipient or any other authority having jurisdiction shall have taken any action for the restructuring, dissolution or disestablishment of PEU or for the suspension of its operations, so as to affect materially and adversely, in the opinion of the Bank, the Project and the ability of the Recipient through PEU to perform any of its obligations under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph: (A) the right of the Recipient to withdraw the proceeds of the Loan shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Loan Agreement; or (B) such loan shall have become due and payable prior to the agreed maturity thereof;

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

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

(a) Any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur.

(b) The event specified in paragraph (b) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of such Section.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that the Loan Agreement has become effective.

Section 6.02. The date October 17, 2006, 2006, is hereby specified for the purposes of Section 12.04 of the General Conditions.

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

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. Except as provided in Section 2.04 of this Agreement, the Recipient's Minister at the time responsible for Finance is designated as representative of the Recipient 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 Recipient:

Ministry of Economy and Finance
Jr. Junín 319
Lima, Peru
Facsimile: (511) 426-8500

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.

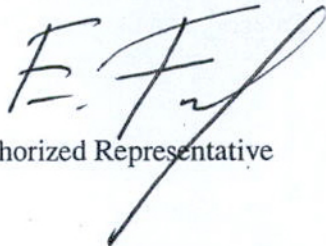
248423 (MCI)
64145 (MCI)

(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 The District of Columbia, United States of America as of the day and year first above written.

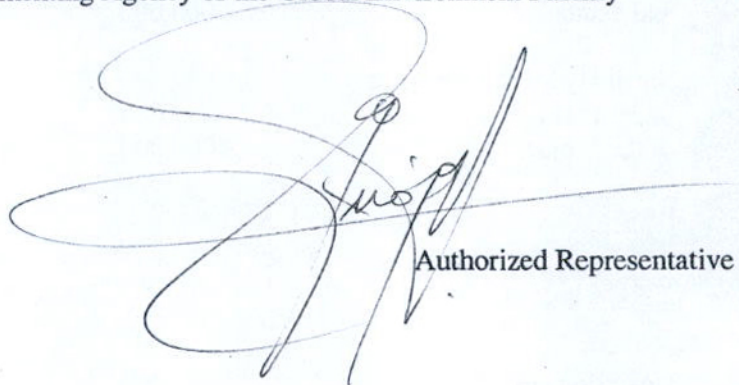
REPUBLIC OF PERU

By


Authorized Representative

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

By


Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

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

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in <u>Dollars</u>)	% of Expenditures to be financed
(1) Goods	50,000	85%
(2) Works	10,000	85%
(3) Consultant services, training and audits	4,000,000	85%
(4) Small Hydro Sub-Projects under Part D of the Project	5,000,000	100% of amounts disbursed by a Participating Bank for Small Hydro Sub-Project goods, works and services
(5) Operating costs	940,000	85%
TOTAL	<u>10,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "training" means the reasonable cost of: (i) training materials and rental of training facilities and equipment; (ii) tuition fees, travel and per-diem of trainers and trainee; and (iii) any other expenses related to training to be carried out under the Project; and

(b) "operating costs" means the reasonable incremental expenses incurred in connection with Project-related activities, including office supplies, operation and maintenance of office equipment financed with the proceeds of the GEF Trust Fund Grant, insurance, bank charges on the Grant Special Account and other charges on financial transactions, transport,

travel, per diem, accommodation, communication costs, rental expenses, facilities, utilities, official advertisements, maintenance of offices, organization of events, reproduction and printing services, and non-durable goods, all needed for the supervision of the Project, but excluding salaries of the Recipient's civil service at the national and at the sub-national level.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding \$1,000,000, may be made in respect of Categories (1), (3) and (5) of the table in paragraph 1 of Part A of this Schedule, on account of payments made for expenditures before that date but after December 31, 2005; and (b) expenditures under Category (4) of said table unless: the Recipient has furnished to the Bank: (i) a Project Directory Committee decision, in form and substance satisfactory to the Bank, for the creation of the Investment Committee; (ii) the duly executed Administrative Financial Agreement, in form and substance satisfactory to the Bank; (iii) the duly executed Facility Agreement, in form and substance satisfactory to the Bank; and (iv) the duly executed contracts for the PEU key staff members referred to in paragraph 1(c) of Schedule 4 to this Agreement; all, in form and substance satisfactory to the Bank.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) contracts for goods and works; (b) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (c) services of individual consultants not covered by a Small Hydro Sub-Project and costing less than \$50,000 equivalent per contract; and (d) Small Hydro Sub-Project good, works and services, training, audits and operating costs, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. The Recipient, through PEU, may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient, through PEU, shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Grant Special Account

1. Upon receipt of a notification from the Bank allowing the establishment of the Grant Special Account and to facilitate the carrying out of the Project, the Recipient may open and maintain in Dollars a special deposit account in *Banco de la Nación*, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Grant Special Account has been opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the Grant Special Account shall be made as follows:

(a) if the Recipient, through PEU, is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient, through PEU, is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Grant Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient, through PEU, out of the Grant Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Grant Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient, through PEU, directly from the GEF Trust Fund Grant Account; or

(c) if the Recipient, through PEU, 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: (A) the records and accounts for the Grant Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Grant Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Grant Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Bank determines at any time that any payment out of the Grant Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient, through PEU, shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Grant Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Grant Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Grant Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient, through PEU, shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the GEF Trust Fund Grant Agreement.

C. Small Hydro Designated Account

1. (a) The Recipient, through PEU, shall withdraw from the Grant Special Account and deposit into a sub-account of the Grant Special Account the funds necessary to assist the Participating Bank to make loans for Small Hydro Sub-Projects under Part D of the Project. Such withdrawals or deposits shall be in amounts sufficient to assist the Participating Bank to make such loans to Small Hydro Providers for Small Hydro Sub-Projects for a period of up to nine months.

(b) Payments out of the Small Hydro Designated Account shall only be made for eligible expenditures under Category (4) as set forth in the table in paragraph A.1 of Schedule 1 to this Agreement.

(c) Withdrawals from the Small Hydro Designated Account may be justified by the Recipient, through PEU, under such terms and conditions as the Bank shall specify to the Recipient.

(d) In the event the Bank after consultation with the Recipient, determines that any outstanding amount in the Small Hydro Designated Account is not further required to cover payments for eligible expenditures under Category (4), the Recipient, through PEU, shall cause the Participating Bank, upon notice from the Bank, to promptly refund such outstanding amount to the Small Hydro Designated Account.

**Annex A
to
SCHEDULE 1**

**Operation of Grant Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$1,000,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Grant Special Account pursuant to paragraph 2 of this Annex.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Grant Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Grant Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Grant Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Grant Special Account, the Recipient shall furnish to the Bank requests for deposit into the Grant Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Grant Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Grant Special Account for Eligible Expenditures. Each such deposit into the Grant Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Grant Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Grant Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

**Operation of Grant Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Grant Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Grant Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Grant Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the nine-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to alleviate poverty in the Recipient's territory by increasing access to efficient and sustainable electricity services in rural areas.

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

Part A: Rural Electrification Sub-Projects

Increase electricity connections outside existing concession areas and provide isolated communities with electricity services through mini grids or through individual household systems (Rural Electrification Sub-Projects), including conventional and renewable systems, installed as a result of said sub-projects (other than those covered by Part D of the Project) selected on a competitive basis and carried out by public and private electricity service providers (Rural Electrification Providers).

Part B: Technical Assistance for Rural Electrification

Provide technical assistance in support of rural electrification in order to:

1. develop the institutional framework and regulations for rural provision of electricity service on- and off- grid, including provision using renewable energy;
2. build the capacity of private and public electricity service providers as well as national and sub-national entities for demand-driven and decentralized identification, planning and development of Rural Electrification Sub-Projects;
3. promote private investment in Rural Electrification Sub-Projects in order to stimulate proposals from the private sector by, *inter alia*: (i) developing a legal framework to facilitate provision of subsidies to the private sector; (ii) increasing public awareness of the existence of investment opportunities; and (iii) developing bidding procedures for specific Rural Electrification Sub-Projects; and
4. promote renewable energy for rural electrification and supply to the rural grid especially using small hydropower by, *inter alia*, supporting: (i) the development of appropriate policies and incentives; (ii) the building of MEM's capacity for renewable energy promotion and management; (iii) the cost-shared preparation of proposals and feasibility studies for renewable energy; and (iv) the carrying-out of technical studies such as resource assessments.

Part C: Pilot Program for Productive Uses of Electricity

Carry out a promotional and marketing campaign to encourage productive uses of electricity and develop business assistance in rural areas to promote economic activities utilizing electrical equipment.

Part D: Small Hydro Financing Facility

Provide electricity services through the construction and initial operation by the private sector of small hydroelectric generation plants of less than 10 megawatts (Small Hydro Sub-Projects), said construction and initial operation to be financed in part by the Small Hydro Financing Facility to be managed by a selected Fund Manager.

Part E: Project Management

Support PEU in its day-to-day management of the Project, through the provision of technical advisory services and audits and the financing of operating costs.

* * *

The Project is expected to be completed by June 30, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits", dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient by domestic suppliers.

B. Other Procurement Procedures

1. National Competitive Bidding. (a) Works estimated to cost less than \$3,000,000 but more than \$250,000 equivalent per contract; and (b) goods and non-consultant services (including training-related expenses) estimated to cost less than \$250,000 but more than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. (a) Works estimated to cost \$250,000 equivalent per contract or less; and (b) goods and non-consultant services (including training-related expenses) estimated to cost \$50,000 equivalent per contract or less, may be procured under contracts awarded on the basis of Shopping.

3. Procurement for Small Hydro Sub-Projects. Works, goods and services needed under Part D of the Project for Small Hydro Sub-Projects, may be procured under contracts awarded in accordance with the provisions of paragraph 3.12 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection in accordance with Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$350,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least Cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least Cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than US\$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services estimated to cost less than US\$100,000 equivalent per contract and in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Selection under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines rendered by consulting firms may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

7. Commercial Practices. Services for assignments under Part B 3 (iii) of the Project may be procured under contracts awarded to consultants in accordance with the provisions of paragraph 3.14 of the Consultant Guidelines.

Section IV. Review by the Bank of Procurement Decisions

A. Prior Review. Except as the Bank shall otherwise determine by notice to the Recipient, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Procurement Guidelines shall apply to: (a) each contract awarded with the use of International Competitive Bidding; and (b) the first contract for goods and works awarded under Shopping.

2. Consultants' Services Provided by Firms

(a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of Single Source Selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants' Services Provided by Individuals

(a) The prior review procedures set forth in paragraphs 2, 3 and 4 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by an individual to be procured on the basis of Single Source Selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 5 of Appendix 1 to the Consultant Guidelines shall apply.

Section V. Special Provisions

A. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Procurement Guidelines, the following provisions shall govern all procurement of goods, works and non-consultant services under Section II of this Schedule:

1. No reference value shall be required for publication in the bidding documents.
2. Award of contracts shall be based exclusively on price and, whenever appropriate, shall take into account factors that can be quantified objectively, and the procedure for such quantification shall be disclosed in the invitation to bid.
3. The Recipient, through PEU, shall utilize standard bidding documents satisfactory to the Bank.
4. Foreign bidders shall not be required to legalize their bids or any documentation related to such bids with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the bidding process.

B. In addition and without limitation or restriction to any other provision set forth in this Schedule or the Consultant Guidelines, the following provisions shall govern all employment of consultants referred to in Section III of this Schedule:

1. Foreign consultants shall not be required to be locally registered as a condition of participation in the selection process.
2. Foreign consultants shall not be required to legalize their proposals or any documentation related to such proposals with either Peruvian consulates, the Ministry of Foreign Affairs, or any Peruvian authorities, as a pre-condition to participate in the selection process.

SCHEDULE 4

Implementation Program

1. General

The Recipient shall:

(a) through MEM and PEU, carry out the Project or cause the Project to be carried out in accordance with the Project Operational Manual, including the Environmental and Social Management Framework, the Indigenous Peoples' Framework, the Resettlement Framework and the Annual Operation Plans, and except as the Bank shall otherwise agree, shall not amend or waive any provision of these documents without the Bank's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail;

(b) through MEM and PEU, maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objective thereof;

(c) through MEM, maintain, until the completion of the execution of the Project, PEU with competent staff in adequate numbers with qualification and experience satisfactory to the Bank, including the following key staff members: the Project manager, the manager of the administrative unit, the manager of the technical unit, the social and resettlement specialist, the procurement specialist and the financial management specialist;

(d) through MEM, create in accordance with paragraph A.3(b)(i) of Schedule 1 to this Agreement and thereafter maintain, until the completion of the execution of the Project, the Investment Committee; said Investment Committee shall convene at least each year in order to approve selected Small Hydro Sub-Projects and shall submit minutes of said meetings to the Bank;

(e) cause MEM to enter into and implement until the completion of the execution of the Project: (i) the Administrative Financial Agreement, through PEU; and (ii) the Facility Agreement; all in terms and substance satisfactory to the Bank, and except as the Bank shall otherwise agree, shall not amend or waive any substantive provision of said Agreements without the Bank's prior written approval. Said Agreements will not be amended or waived if, in the opinion of the Bank, such amendments or waivers may materially and adversely affect the carrying out of the Project or the achievement of the objective thereof. In case of any conflict between the terms of said Agreements and those of this Agreement, the terms of this Agreement shall prevail.

2. Semi-annual Progress Reports and Mid-Term Review

The Recipient, through PEU and within the framework of SNIP, shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about January 31 and July 31 of each year, starting on the first such date after the Effective Date, a semi-annual progress report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1(b) of this Schedule, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective thereof during the period following such date;

(b) review with the Bank, by February 28 and August 31 of each year, starting on the month following the presentation of the first semi-annual progress report, or such later date as the Bank shall request, the report referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objective thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter;

(c) by January 31, 2009, or such other date as the Bank shall agree upon, carry out jointly with the Bank a mid-term review of the implementation of operations under the Project (Midterm Review). The Midterm Review shall cover the progress achieved in the implementation of the Project; and

(d) following such Midterm Review, act promptly and diligently to take any corrective action as shall be recommended by the Bank.

3. Annual Procurement Audits

The Recipient, through MEM and PEU, shall:

(a) have all the procurement records and documentation for each fiscal year of the Project audited, in accordance with appropriate procurement auditing principles, by procurement auditors acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such fiscal year, the procurement audit report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said procurement records and documentation and the procurement audit thereof as the Bank shall from time to time reasonably request.

4. Procurement Plan and Annual Operation Plan

The Recipient, through MEM and PEU, shall:

(a) furnish to the Bank, on or about June 30 and November 30 of each year, starting on June 30, 2006, the updated Procurement Plan, satisfactory to the Bank, detailing all procurement activities under the Project for the following year;

(b) review with the Bank, by July 31 and December 31 of each year, starting on July 31, 2006, or such later date as the Bank shall request, the plan referred to in subparagraph (a) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the plan based on its recommendations and the Bank's views on the matter;

(c) furnish to the Bank, on or about November 30 of each year, starting on November 30, 2006, the updated Annual Operation Plan, satisfactory to the Bank, detailing all activities to be financed under the Project for the following year; and

(d) review with the Bank, by December 31 of each year, starting on December 31, 2006, or such later date as the Bank shall request, the plan referred to in subparagraph (c) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of the plan based on its recommendations and the Bank's views on the matter.

In case of any conflict between the terms of the Procurement Plan and/or the Annual Operation Plan and those of this Agreement, the terms of this Agreement shall prevail.

5. Small Hydro Sub-Projects

(a) Without limitation upon the provisions of paragraph 1 of this Schedule, the Recipient, through MEM and PEU, shall monitor the activities financed through Small Hydro Sub-Projects under Part D of the Project in accordance with the provisions of this paragraph and the Project Operational Manual that include, *inter alia*:

- (i) the administrative rules and procedures for planning, preparing, proposing, selecting, contracting, financing, implementing, supervising, monitoring and evaluating the Small Hydro Sub-Projects;
- (ii) the eligibility and qualifying rules for Small Hydro Providers;
- (iii) a model form of a Small Hydro Sub-Project Agreement; and
- (iv) the Indigenous Peoples' Framework, the Environmental and Social Management Framework and the Resettlement Framework.

(b) The Recipient, through PEU, shall, prior to the submission of a GEF Trust Fund Grant withdrawal application for the respective activity to be financed through a Small Hydro Sub-Project for each qualified Small Hydro Provider, furnish to the Bank a report confirming that the respective Small Hydro Sub-Project Agreement has been executed and approved, indicating the name of the qualified Small Hydro Provider and the value of said Small Hydro Sub-Project Agreement.

(c) The Small Hydro Sub-Project Loan shall be requested by a Small Hydro Provider in accordance with the Project Operational Manual and shall be used solely for the purposes of the activities under Part D of the Project.

(d) The activities to be financed by a Small Hydro Sub-Project Loan shall be carried out pursuant to a Small Hydro Sub-Project Agreement, to be concluded between the Recipient (through MEM), the Participating Bank and the Small Hydro Provider under terms and conditions described in more detail in the Project Operational Manual and which shall include the following:

- (i) a copy of the approved activity with its budget, its execution timetable, its disbursement timetable and its performance indicators;
- (ii) provisions requiring the financing to be made on a loan basis;
- (iii) the obligation of the Small Hydro Provider to: (A) carry out the activities with due diligence and efficiency and in accordance with sound administrative, financial, engineering, cultural, social, environmental standards and in accordance with the provisions of the Project Operational Manual for a duration of time to be defined in the Project Operational Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Project Operational Manual, the operations, the resources and expenditures in respect of the Small Hydro Sub-Project; (C) maintain adequate reporting in accordance with the standards specified in the Project Operational Manual; and (D) make a minimum contribution in cash equivalent to at least 30% of the total investment costs as defined in the Project Operation Manual;
- (iv) the requirement that: (A) the goods, works and services to be financed from the proceeds of the Small Hydro Sub-Projects shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (B) such goods, works and services shall be used exclusively in the carrying out of the activities financed by the Small Hydro Sub-Project;
- (v) the right of the PEU to inspect, by itself or jointly with MEM and the Bank, if the Bank shall so request, the goods, works, sites and constructions included in the activities financed by the Small Hydro Sub-Projects, the operations thereof and any relevant records and documents;
- (vi) the right of the PEU to obtain all information as PEU or the Bank shall reasonably request regarding the administration, operations and financial conditions of the activities financed by the Small Hydro Sub-Projects; and
- (vii) (A) the right of the PEU to suspend and terminate the right of the Small Hydro Provider to use the proceeds of the Small Hydro Sub-Project; and

(B) the obligation of the Small Hydro Provider to refund any used portion of the Small Hydro Sub-Project to PEU; upon failure by the Small Hydro Provider to perform any of its obligations under the Small Hydro Sub-Project Agreement.

6. Administrative Financial Agreement

The activities to be financed under Small Hydro Sub-Projects shall be funded through Small Hydro Sub-Project Loans pursuant to an Administrative Financial Agreement, to be concluded between the Participating Bank and PEU under terms and conditions described in more detail in the Project Operational Manual and which shall include the following:

- (i) provisions stating that loans will be made for each relevant Small Hydro Sub-Project on the basis of instructions received from the PEU;
- (ii) the obligation of the Participating Bank to: (A) carry out the activities with due diligence and efficiency and in accordance with sound administrative and financial standards and in accordance with the provisions of the Project Operational Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Project Operational Manual, the operations, the resources and expenditures in respect of the loans made for Small Hydro Sub-Projects; and (C) maintain adequate reporting in accordance with the standards specified in the Project Operational Manual;
- (iii) the right of the PEU to inspect, by itself or jointly with MEM and the Bank, if the Bank shall so request, any relevant records and documents held by the Participating Bank;
- (iv) the right of the PEU to obtain all information as PEU or the Bank shall reasonably request regarding the administration, operations and financial conditions of the loans made for Small Hydro Sub-Projects through the Participating Bank; and
- (v) (A) the right of the PEU to suspend and terminate the right of the Participating Bank to use the proceeds of the Administrative Financial Agreement; and (B) the obligation of the Participating Bank to refund any used portion under the Administrative Financial Agreement to PEU, all upon failure by the Participating Bank to perform any of its obligations under the Administrative Financial Agreement.

7. Small Hydro Financing Facility and Facility Agreement

The Small Hydro Financing Facility shall be managed pursuant to a Facility Agreement, to be concluded between the Fund Manager and MEM under terms and conditions described in more detail in the Project Operational Manual and which shall include the following:

- (i) provisions stating that the Facility Agreement will be concluded for a minimum period of ten years and that, at the end of the period, MEM will afford the Bank an opportunity to exchange views and will agree on the further use of any remaining funds under the Small Hydro Financing Facility in accordance with the GEF objectives;
- (ii) the obligation of the Fund Manager to: (A) carry out the activities with due diligence and efficiency and in accordance with sound administrative, environmental and financial standards and in accordance with the provisions of the Project Operational Manual; (B) maintain adequate records to reflect, in accordance with simple and sound accounting practices defined in the Project Operational Manual, the operations, the resources of the Small Hydro Financing Facility in respect of expenditures made for Small Hydro Sub-Projects; and (C) maintain adequate reporting in accordance with the standards specified in the Project Operational Manual;
- (iii) the right of the PEU to inspect, by itself or jointly with MEM and the Bank, if the Bank shall so request, any relevant records and documents held by the Fund Manager in respect of the Small Hydro Financing Facility; and
- (iv) the right of the PEU to obtain all information from the Fund Manager as PEU or the Bank shall reasonably request regarding the administration, operations and financial conditions of the Small Hydro Financing Facility.

SCHEDULE 5

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Recipient and the Bank:

Performance Indicators	Target Dates	
	Mid Term	End of Project
1. Project related avoided CO ₂ emissions (tonnes).	42,010	151,710
2. MW of new small hydro plants installed for electricity generation to feed the grid.	7	15
3. Number of new connections served by renewable energy.	3,500	20,000
4. Increase in MWh/year of electricity consumed for productive uses in target rural areas.	1,140	7,200
5. Issuance of norms, regulations and guidelines for rural electrification using renewable energy.	Completed	