
LOAN NUMBER 7366-PE

Loan Agreement

(Rural Electrification Project)

between

REPUBLIC OF PERU

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *July 19*, 2006

LOAN NUMBER 7366-PE

LOAN AGREEMENT

AGREEMENT, dated July 19, 2006, between REPUBLIC OF PERU (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) by agreement of even date herewith (the Grant Agreement) between the Borrower and the Bank, 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, has agreed to make a grant (the GEF Trust Fund Grant) to the Borrower in an aggregate amount of \$10,000,000 to assist in financing Part D of the Project and in co-financing Parts B, C and E of the Project described in Schedule 2 to the Loan Agreement on terms and conditions set forth in the Grant Agreement;

(B) 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, as amended through May 1, 2004 and with the modifications set below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 6.03(c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "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 Part 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 5 to this Agreement for payments made for Rural Electrification Sub-Projects under Part A of the Project, and in paragraph 6 of Schedule 4 to the Grant Agreement for loans made for Small Hydro Sub-Projects under Part D 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 5 to this Agreement and paragraph 4 of Schedule 4 to the Grant Agreement;

(c) "*Banco de la Nación*" means the Borrower's public sector bank created and operating, *inter alia*, under the Borrower's Law No. 16000, dated January 27, 1966 and the Borrower'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 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 the Grant 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 the Grant Agreement under a Facility Agreement;

(j) "Grant Agreement" means the GEF Trust Fund Grant agreement of even date herewith, between the Borrower 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 Grant Agreement;

(k) "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;

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

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

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

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

(p) "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 4 to this Agreement and Section III of Schedule 3 to the Grant Agreement under an Administrative Financial Agreement, in accordance with paragraph 6 of Schedule 5 to this Agreement and to paragraph 6 of Schedule 4 to the Grant Agreement;

(q) "PEU" means the Project Executing Unit (*Unidad Ejecutora del Proyecto*), the Borrower'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;

(r) "Project Directory Committee" (*Comité Directivo del Proyecto*) means the highest oversight executive and advisory body for the Project headed by the Borrower'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 Borrower;

(s) "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 5 to this Agreement;

(t) "Project Operational Manual" means a manual satisfactory to the Bank to be approved by the Borrower'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;

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

(v) "Resettlement Framework" means the MEM's framework 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;

(w) "Rural Electrification Designated Account" means the part of the Loan Special Account that is referred to as a sub-account in Part C.1 (a) of Schedule 1 to this Agreement;

(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 this Agreement in order to provide electricity services in rural areas 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 this Agreement;

(z) "Rural Electrification Sub-Project Agreement" 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 this Agreement;

(aa) "Rural Electrification Sub-Project Subsidy" means a subsidy or a contribution granted or proposed to be granted to cover part of the capital cost of a Rural Electrification Sub-Project;

(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 the Grant 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 the Grant 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 the Grant 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 the Grant Agreement; and

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

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to fifty million Dollars (\$50,000,000), 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. 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 works, goods, services and consultant services (including those financed through Rural Electrification Sub-Projects) 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.

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 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, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. 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: (a) 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 (b) seventy five one-hundredths of one per cent (0.75%) per annum thereafter, subject in either case to any waiver of a portion of such charge as may be determined by the Bank from time to time.

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.

Section 2.10. The Borrower's Minister at the time responsible for Finance or the Borrower'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 Borrower 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 Borrower declares its commitment to the objective of the Project, and, to this end, shall carry out the Project through PEU with due diligence and efficiency and in conformity with appropriate administrative, social, financial, public utility and environmental practices, 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 Borrower and the Bank shall otherwise agree, the Borrower, through PEU, shall carry out the Project in accordance with the provisions set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works, services and consultants' services required for the Project, including those financed through Rural Electrification Sub-Projects, and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through PEU, shall update the Procurement Plan in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower, through MEM, 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 for the future operation of the Project; and

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

Section 3.04. The Borrower 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 4 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) through PEU, 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 5 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 4 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, 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 Borrower, 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 Loan 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 Loan 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 Borrower, 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 Loan 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 Borrower's progress reporting obligations set out in paragraph 2 of Schedule 5 to this Agreement, the Borrower, 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 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, 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 Borrower 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 Borrower through PEU to perform any of its obligations under this Agreement.

(b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Grant Agreement shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the Grant Agreement; and

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

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Borrower, through its Vice-Ministry of Energy, has adopted the Project Operational Manual, including all its annexes, in form and substance satisfactory to the Bank.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.10 of this Agreement, the Borrower's Minister at the time responsible for Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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:
INTBAFRAD
Washington, D.C.

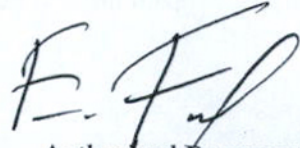
Telex:
248423 (MCI) or
64145 (MCI)

Facsimile:
(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

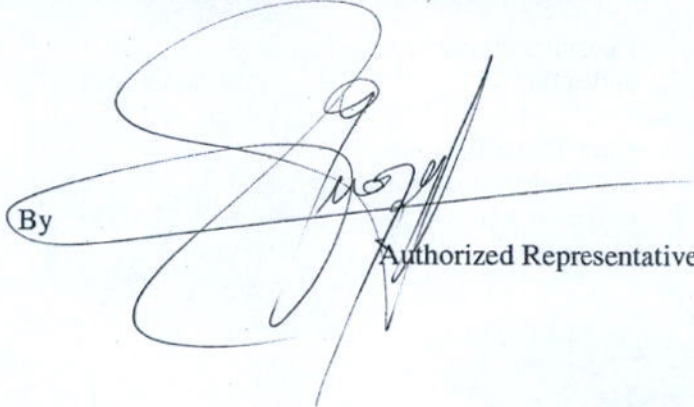
By



Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

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	100,000	85%
(2)	Works	20,000	85%
(3)	Consultant services, training and audits	4,380,000	85%
(4)	Rural Electrification Sub-Projects under Part A of the Project	43,375,000	100% of amounts disbursed by the Participating Bank for Rural Electrification Sub-Project goods, works and services
(5)	Operating costs	1,000,000	85%
(6)	Front End Fee	125,000	Amount due under Section 2.04 of this Agreement
(7)	Premium for Interest Rate Caps and Collars	0	Amount due under Section 2.09 (c) of this Agreement

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be financed</u>
(8) Unallocated	1,000,000	
TOTAL	<u>50,000,000</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 Loan, insurance, vehicle and equipment operation, bank charges on the Loan 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 Borrower'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 to exceed \$2,000,000, 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 during the twelve months immediately before that date but in any case after December 31, 2005; and (b) expenditures under Category (4) of said table unless the Borrower through MEM, has furnished to the Bank: (i) the duly executed Administrative Financial Agreement; and (ii) the duly executed contracts for the PEU key staff members referred to in paragraph 1(c) of Schedule 5 to this Agreement; all, in form and substance satisfactory to the Bank.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures under: (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 Rural Electrification Sub-Project or a Small Hydro Sub-Project and costing less than \$50,000 equivalent per contract; and (d) operating costs, Rural Electrification Sub-Project goods, works and services, training and audits; all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower, through PEU, may request withdrawals from the Loan 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 Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower, 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. Loan Special Account

1. Upon receipt of a notification from the Bank allowing the establishment of the Loan Special Account and to facilitate the carrying out of the Project, the Borrower through PEU may open and maintain in Dollars a separate 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 Loan Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Loan Special Account shall be made as follows:

(a) if the Borrower, 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 Borrower, 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 Loan Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower, through PEU, out of the Loan Special Account, the Borrower shall, through PEU, 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 Loan 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 Borrower, through PEU, directly from the Loan Account; or

(c) if the Borrower, 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 Loan 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 Loan Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Loan Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Loan 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 Borrower, through PEU, shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Loan 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 Loan 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 determines at any time that any amount outstanding in the Loan Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower, through PEU, 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 Loan Special Account.

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

C. Rural Electrification Designated Account

1. (a) The Borrower, through PEU, shall withdraw from the Loan Special Account and deposit into a sub-account of the Loan Special Account the funds necessary to assist the Participating Bank to pay for goods, works and services needed for Rural Electrification Sub-Projects under Part A of the Project. Such withdrawals or deposits shall be in amounts sufficient to assist the Participating Bank to pay for such goods, works and services for Rural Electrification Sub-Projects for a period of up to nine months.

(b) Payments out of the Rural Electrification 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 Rural Electrification Designated Account may be justified by the Borrower, through PEU, under such terms and conditions as the Bank shall specify to the Borrower.

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term "Authorized Allocation" means the amount of \$5,000,000 to be withdrawn from the Loan Account and deposited into the Loan Special Account pursuant to paragraph 2 of this Annex.

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

(a) For withdrawals of the Authorized Allocation, the Borrower, through PEU, shall furnish to the Bank a request or requests for deposit into the Loan 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 Borrower, withdraw from the Loan Account and deposit into the Loan Special Account such amount as the Borrower, through PEU, shall have requested.

(b) For replenishment of the Loan Special Account, the Borrower shall furnish to the Bank requests for deposit into the Loan Special Account at such intervals as the Bank shall specify. 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 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 Borrower, withdraw from the Loan Account and deposit into the Loan 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 Loan Special Account for Eligible Expenditures. Each such deposit into the Loan Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Loan Special Account, once the total unwithdrawn amount of the Loan 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 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 Loan 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 Loan Special Account
When Withdrawals Are
Report-based Disbursements**

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

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Loan 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 Borrower'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 Borrower 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;
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) identifying potential private investors; (ii) increasing public awareness of the existence of subsidies for rural electrification; and (iii) building capacity and training for the preparation of proposals; 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

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>
April 15, 2016	10%
October 15, 2016	30%
April 15, 2017	60%

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 subparagraph (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 subparagraph 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 and Works

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for 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 method 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 Borrower 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 Rural Electrification Sub-Projects. Works, goods and services needed under Part A of the Project for Rural Electrification 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 Borrower, 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; (b) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$200,000 or more and each contract for works estimated to cost \$2,000,000 equivalent or more per contract awarded under National Competitive Bidding; (c) the first two contracts for goods and works awarded under National Competitive Bidding procedures; and (d) the first two contracts 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 Borrower, through MEM and 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 5

Implementation Program

1. General

The Borrower 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 6 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) maintain, until the completion of the execution of the Project, the Project Directory Committee; said Project Directory Committee shall convene at least each four months and shall submit minutes of said meetings to the Bank;

(e) cause MEM through PEU to enter into and implement until the completion of the execution of the Project, the Administrative Financial Agreement, 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 Agreement without the Bank's prior written approval. Said Agreement 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 Agreement and those of this Agreement, the terms of this Agreement shall prevail.

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

The Borrower, through MEM and 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 Borrower, 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 Borrower, 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. Rural Electrification Sub-Projects

(a) Without limitation upon the provisions of paragraph 1 of this Schedule, the Borrower, through MEM and PEU, shall monitor the activities financed through Rural Electrification Sub-Projects under Part A 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 Rural Electrification Sub-Projects;

- (ii) the eligibility and qualifying rules for Rural Electrification Providers;
- (iii) a model form of a Rural Electrification Sub-Project Agreement; and
- (iv) the Indigenous Peoples' Framework, the Environmental and Social Management Framework and the Resettlement Framework.

(b) The Borrower, through PEU, shall, prior to the submission of a Loan withdrawal application for the respective activity to be financed through a Rural Electrification Sub-Project for each qualified Rural Electrification Provider, furnish to the Bank a report confirming that the respective Rural Electrification Sub-Project Agreement has been approved and executed, indicating the name of the qualified Rural Electrification Provider and the value of said Rural Electrification Sub-Project Agreement.

(c) The Rural Electrification Sub-Project Subsidy shall be requested by a Rural Electrification Provider in accordance with the Project Operational Manual and shall be used solely for the purposes of the activities under Part A of the Project.

(d) The activities to be financed by a Rural Electrification Sub-Project shall be carried out pursuant to a Rural Electrification Sub-Project Agreement, to be concluded between the Borrower (through MEM) and the Rural Electrification 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 grant basis;
- (iii) the obligation of the Rural Electrification 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 Rural Electrification 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 10% 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 Rural Electrification Sub-Projects shall be procured in accordance with the procedures set forth in Schedule 4 to this Agreement; and (B) such goods, works and services shall be used exclusively in the carrying out of the activities financed by the Rural Electrification 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 Rural Electrification 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 Rural Electrification Sub-Projects; and
- (vii) (A) the right of the PEU to suspend and terminate the right of the Rural Electrification Provider to use the proceeds of the Rural Electrification Sub-Project; and (B) the obligation of the Rural Electrification Provider to refund any used portion of the Rural Electrification Sub-Project to PEU, all upon failure by the Rural Electrification Provider to perform any of its obligations under the Rural Electrification Sub-Project Agreement.

6. Administrative Financial Agreement

The activities to be financed by a Rural Electrification Sub-Project shall be paid 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 payments will be made for each relevant Rural Electrification 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 payments made for Rural Electrification 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 payments made for Rural Electrification Sub-Projects through the Participating Bank; and
- (viii) (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.

SCHEDULE 6

Performance Indicators

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

Performance Indicators	Target Dates	
	Mid Term	End of Project
1. Number of new connections outside concession areas.	48,500	160,000
2. Increase in MWh/year of electricity consumed for productive uses in targeted rural areas.	1,710	10,800
3. Investments by Rural Electrification Providers in Rural Electrification Sub-Projects (Million US\$).	8.0	23.1
4. Issuance of norms, regulations and guidelines for rural electrification using conventional energy.	Completed	
5. Number of enterprises adopting electricity using equipment in targeted rural areas.	1,420	9,000