Development Credit Agreement

(Renewable Energy Project)

between

REPUBLIC OF ARMENIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 7, 2006
AGREEMENT, dated April 7, 2006, between REPUBLIC OF ARMENIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the International Bank for Reconstruction and Development (the Bank), acting as an implementing agency (the 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, a grant in an amount of three million Dollars ($3,000,000) (the GEF Trust Fund Grant) to assist in financing Part A of the Project on the terms and conditions set forth in a trust fund grant agreement of even date herewith between the Borrower and the Implementing Agency (as the same may be amended from time to time, the GEF Trust Fund Grant Agreement, and such term includes all schedules to the GEF Trust Fund Grant Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit 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 Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. Treatment of Taxes

Except as otherwise provided in the Development Credit Agreement, the proceeds of the Credit may be withdrawn to pay for taxes levied by, or in the territory of, the Borrower on the goods or services to be financed under the Credit, or on their
importation, manufacture, procurement or supply. Financing of such taxes is subject to
the Association’s policy of requiring economy and efficiency in the use of the proceeds
of its credits. To that end, if the Association shall at any time determine that the amount
of any taxes levied on or in respect of any item to be financed out of the proceeds of the
Credit is excessive or otherwise unreasonable, the Association may, by notice to the
Borrower, adjust the percentage for withdrawal set forth or referred to in respect of such
item in the Development Credit Agreement as required to be consistent with such policy
of the Association.”

(b) 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) “Agency Agreement” means the agreement entered into between the
Borrower and the R2E2 Fund, for provision of the grant from the Borrower to the R2E2
Fund for Part A of the Project, and for the management of the funds for Part B of the
Project, as the same may be amended from time to time;

(b) “Board of Trustees” means the Board of Trustees of the R2E2 Fund,
consisting of representatives from the Government, private sector and non-governmental
organizations;

(c) “EMP” means the framework environmental management plan,
satisfactory to the Association, adopted by the Borrower and submitted to the Association
on February 15, 2006, setting forth measures to mitigate any adverse impacts to the
environment;

(d) “Financial Monitoring Report” or “FMR” means each report prepared in
accordance with Section 4.02 of this Agreement;

(e) “Operational Manual” means the manual, referred to in Section 6.01 (c)
of the Agreement, satisfactory to the Association, setting forth the implementation rules
and procedures for the Project, including selection criteria and provision of Sub-loans
under Part B of the Project, as the same may be amended from time to time by agreement
between the Association and the Borrower;

(f) “PFI” means any participating financial institution which meets the
eligibility criteria set forth in the Operational Manual, selected for the provision of the
Sub-loans under Part B of the Project;
"Procurement Plan" means the Borrower’s procurement plan, dated February 7, 2006, covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

"R2E2 Fund" means the Renewable Resources and Energy Efficiency Fund, established according to the Government degree No. 799-N, dated April 28, 2005, and to which any legal limitations set out in any regulations with regard to licensing and/or the Credit Organizations Law of the Borrower shall not apply, for the purpose of implementation of the Project;

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

"Sub-loan” means a loan made or proposed to be made by the PFI to Sub-loan Beneficiary under Part B of the Project, in accordance with the Sub-loan Agreement, the Operational Manual, Schedule 6 to this Agreement, and in compliance with the Subsidiary Loan Agreement;

"Sub-loan Agreement” means an agreement entered into between the PFI and a Sub-loan Beneficiary for the purpose of financing an activity under Part B of the Project, which is elaborated in the Operational Manual;

"Sub-loan Beneficiary” means an individual or a legal entity meeting the criteria outlined in the Operational Manual and Schedule 6 to this Agreement;

"Sub-project” means the sub-project to be financed through the Sub-loan under Part B of the Project;

"Subsidiary Loan” means a loan made or proposed to be made from the Borrower, through the R2E2 Fund, to the PFI under Part B of the Project; and

"Subsidiary Loan Agreement” means an agreement between the R2E2 Fund on behalf of the Borrower and the PFI pursuant to Section 3.01 (c) of this Agreement, for the purpose of implementing Part B of the Project, as the same may be amended from time to time.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to three million five hundred thousand Special Drawing Rights (SDR 3,500,000).
Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made under Sub-loans, and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each
May 15 and November 15 commencing May 15, 2016, and ending November 15, 2045. Each installment to and including the installment payable on November 15, 2025, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever:

(i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and

(ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower’s economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further
modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the R2E2 Fund, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering 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 Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Operational Manual, Eligibility Criteria and Procedures for Sub-loans under Part B of the Project set forth in Schedule 6 to this Agreement, and the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit available to the PFI under a Subsidiary Loan Agreement to be entered into between the R2E2 Fund on behalf of the Borrower and the PFI, under terms and conditions which shall have been approved by the Association, including the terms of the Sub-loans under Part B of the Project.

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

(e) If the Borrower determines that the PFI has used the funds provided under the Subsidiary Loan Agreement inefficiently or outside the scope and purpose specified in the Subsidiary Loan Agreement, the Borrower may request to return the amount of such funds, either in whole or in part, including the applicable interest calculated up to the payment with prior consultation and agreement with the Association.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit 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 Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association’s approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association 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 Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through the R2E2 Fund, shall maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower, through the R2E2 Fund, 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 Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association):

(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 Association), as so audited; and

(B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
(iii) furnish to the Association such other information concerning
such records and accounts, and the audit of such financial
statements, and concerning said auditors, as the Association may
from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit
Account were made on the basis of statements of expenditure, the Borrower, through the
R2E2 Fund, shall:

(i) retain, until at least one (1) year after the Association has
received the audit report for, or covering, the fiscal year in which
the last withdrawal from the Credit Account was made, all
records (contracts, orders, invoices, bills, receipts and other
documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such
records; and

(iii) ensure that such statements of expenditure are included in the
audit for each fiscal year (or other period agreed to by the
Association), 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 1 of Schedule 4 to this Agreement, the Borrower shall
cause the R2E2 Fund to prepare and furnish to the Association an FMR, in form and
substance satisfactory to the Association, 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 Credit, 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 Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall
cover the period from the incurrence of the first expenditure under the Project through the
end of such first calendar quarter; thereafter, each FMR shall be furnished to the
Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

**ARTICLE V**

**Remedies of the Association**

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

(a) the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project;

(b) the Agency Agreement shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project;

(c) the by-laws of the R2E2 Fund shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project;

(d) (i) subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the GEF Trust Fund Grant Agreement; and

(ii) sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:

(A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such 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 (h) of the General Conditions, the following additional event is specified:

(a) any event specified in Section 5.01 (a), (b) and (c) of this Agreement shall occur; and
(b) the event specified in paragraph (d) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (d) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Agency Agreement satisfactory to the Association has been executed on behalf of the Borrower and the R2E2 Fund;

(b) the GEF Trust Fund Grant Agreement has been duly executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of this Agreement, have been fulfilled;

(c) the Board of Trustee has adopted the Operational Manual, satisfactory to the Association; and

(d) the Subsidiary Loan Agreement between the R2E2 Fund and the PFI, satisfactory to the Association, has been duly executed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association: (a) the Agency Agreement has been duly authorized or ratified by the Borrower and the R2E2 Fund and is legally binding upon the Borrower and the R2E2 Fund in accordance with its terms; and (b) the Subsidiary Loan Agreement between the R2E2 Fund and the PFI has been duly authorized or ratified by the R2E2 Fund and the PFI and is legally binding upon the R2E2 Fund and the PFI in accordance with its terms.

Section 6.03. The date one hundred twenty days (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.
ARTICLE VII

Representative of the Borrower; Addresses

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

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

For the Borrower:

Ministry of Finance and Economy
1 Government House
Republic Square
Yerevan 375010
Republic of Armenia

Telex: Facsimile:
243331 LADA SU (3741) 151-069

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:
INDEVAS 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
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 city of Yerevan, as of the day and year first above written.

REPUBLIC OF ARMENIA

By: /s/ Vardan Khachatryan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Roger Robinson

Authorized Representative
SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Category of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to the Category and the percentage of expenditures for items so to be financed in the Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sub-loans</td>
<td>3,500,000</td>
<td>100% of eligible Sub-loans disbursed</td>
</tr>
<tr>
<td>TOTAL</td>
<td>3,500,000</td>
<td></td>
</tr>
</tbody>
</table>

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) unless amounts are paid in accordance with the terms and conditions of the Operational Manual.

3. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for Sub-loans.
SCHEDULE 2

Description of the Project

The objective of the Project is to increase the role of the privately-owned and operated power generation, utilizing the renewable energy.

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

Part A:  Development of Renewable Energy Framework

1. Improvement of legislative and regulatory framework and strengthening of the capacity of state agencies with regard to: (a) policy planning with regard to renewable energy issues; and (b) the design, evaluation, licensing, assessment and monitoring of renewable energy projects through the provision of goods, services and training.

2. Facilitation of investments in renewable energy Sub-projects through; (a) supporting field surveys and monitoring of potential renewable resources; (b) development of comprehensive databases on available renewable energy resources; (c) development of a R2E2 Fund website and web portal to provide access to the databases, establishment of a centralized unit within the R2E2 Fund for obtaining information and support for the Projects; and (e) provision of technical assistance to potential investors in project identification and preparation.

3. Preparation of long-term strategies and support of initiatives for mobilization of further financing for renewable energy development.

4. Support to the R2E2 Fund and the PFI for the effective implementation and monitoring of the Project, including the provision of goods, services and training.

Part B:  Financing of Investments in Renewable Energy Sub-projects

Provision of Sub-loans for the purpose of construction of new wind power and small hydro power plants and rehabilitation of the existing hydro power plants in accordance with the Operational Manual.

* * * * *

The Project is expected to be completed by June 30, 2010.
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. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines.

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.

B. Other Procurement Procedures

1. Direct Contracting. Goods or works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

2. Commercial Practices. Items estimated to cost less than $1,000,000 equivalent per contract and to be financed under Sub-loans made for Sub-projects under Part B of the Project, may be procured in accordance with commercial practices acceptable to the Association.

Section III. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods, works and services (other than consultants’ services) estimated to cost the equivalent of $1,000,000 or more; and (b) each contract procured on the basis of Direct Contracting. All other contracts shall be subject to Post Review by the Association.
SCHEDULE 4

Implementation Program

1. The Borrower shall:

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

   (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 28, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the 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 objectives thereof during the period following such date; and

   (c) review with the Association, by April 30, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association’s views on the matter.

2. The Borrower shall take or cause to be taken, all measures necessary for the carrying out of the EMP, in a timely manner.

3. The Borrower, through the R2E2 Fund, shall:

   (a) by October 31 of each year, submit a draft operational budget of the R2E2 Fund for the following year to the Association for its review; and

   (b) by December 31 of each other, adopt the agreed budget for the Project for the following year.

4. The Borrower shall ensure, until the completion of the Project, that the necessary resources, staff, powers or functions of the R2E2 Fund shall not be deprived in order not to affect materially and adversely the ability of the R2E2 Fund to perform any of its obligations to carry out the Project.
SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

   (a) the term “eligible Category” means the Category set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

   (c) the term “Authorized Allocation” means an amount not exceeding equivalent to $500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

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

      (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of
the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

   (b) if the Borrower shall have failed to furnish to the Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

   (c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

   (d) once the total unwithdrawn amount of the Credit allocated to the eligible Category, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Category shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the
Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

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

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

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

Eligibility Criteria and Procedures
under Part B of the Project

Part A: Subsidiary Loan Agreement

1. The R2E2 Fund, on behalf of the Borrower, shall enter into a Subsidiary Loan Agreement with the PFI, which shall contain, without limitation, the terms and conditions set forth below:

   (a) The Subsidiary Loan to the PFI shall be made in Dollars or the currency of the Borrower, based on the preference of the PFI.

   (b) The principal amount and the interest of Subsidiary Loan shall be repaid by the PFI to the R2E2 Fund according to the terms and conditions stipulated in the Operational Manual.

   (c) Repayment proceeds from the PFI may be reinvested on a revolving basis for the purposes of the Project and according to the terms and conditions stipulated in the Operational Manual.

   (d) The PFI shall ensure that the Subsidiary Loans are sufficiently secured as stipulated in the Operational Manual.

   (e) The R2E2 Fund shall have the right to withdraw the debt of the PFI from accounts of the PFI in the Central Bank of the Borrower, if the PFI has delayed performance of repayment of its Subsidiary Loan and/or its interest.

   (f) The PFI, its related individuals or its related entities shall not take any equity stake in the Sub-projects until the related Sub-loans have been repaid in full.

Part B: Sub-loans

1. An application for Sub-loan, containing all necessary information, shall be submitted to PFI.

2. PFI shall review the application and ensure its compliance with the eligibility criteria set forth below:

   (a) The eligible Sub-loan Beneficiaries shall:

       (i) have provided at least 30% of total proposed costs through equity financing in the form of cash or in-kind;
(ii) have all necessary licenses, land rights and water permits necessary to completed the proposed activities; and

(iii) have more than fifty percent (50%) of their shares owned privately.

(b) The eligible Sub-loan proposals shall be:

(i) for the new or rehabilitation of power plants, whose capacity is below 10 megawatts;

(ii) for less than $2 million; and

(iii) for the Sub-project which is not already financed and/or participated by any of the entities controlled or owned by the PFI or its related parties.

3. A Sub-loan Agreement, entered into between the PFI and the Sub-loan Beneficiary, shall contain provisions elaborated in the Subsidiary Loan Agreement.