Project Agreement

(Electricity Distribution Rehabilitation Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

CORPORACIÓN DOMINICANA DE EMPRESAS ELÉTRICAS ESTATALES

Dated May 27, 2008
PROJECT AGREEMENT

Agreement dated May 27, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and CORPORACIÓN DOMINICANA DE EMPRESAS ELÉCTRICAS ESTATALES (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of same date between THE DOMINICAN REPUBLIC (“Borrower”) and the Bank. The Bank and the Project Implementing Entity hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

ARTICLE II — PROJECT

2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out the Project, through its UERS, in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of Schedule 1 to this Agreement.

ARTICLE III — REPRESENTATIVE; ADDRESSES

3.01. The Project Implementing Entity’s Representative is its Vice-Presidente Ejecutivo.

3.02. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391
3.03. The Project Implementing Entity’s Address is:

Avda. Independencia esq. Fray Cipriano de Utrera
Centro de los Heroes de Malmon
Constanza y Estero Hondo
Santo Domingo de Guzman
Republica Dominicana

Facsimile: 809-533 3807

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

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Yvonne Tsikata
Authorized Representative

CORPORACIÓN DOMINICANA DE EMPRESAS
ELÉCTRICAS ESTATALES

By /s/ Flavio Darío Espinal
Authorized Representative
SCHEDULE 1

Project Description
(As set forth in Schedule 1 to the Loan Agreement)

The objectives of the Project are: (i) to increase the CRI of the three EDEs, through the rehabilitation of distribution networks in selected areas; and (ii) to improve the quality of electricity service in the Borrower’s territory.

The Project consists of the following parts:

Part 1: Rehabilitation of Medium and Low Voltage Circuits

Rehabilitation and upgrading of the EDEs’ medium and low voltage circuits in selected EDENORTE, EDESUR and EDEESTE networks, through, inter alia:

(a) the replacement of existing rundown and aged medium and low voltage overhead lines;

(b) the expansion of distribution substations and feeders;

(c) the replacement and installation of meters, cables and transformers, as well as the installation of new connections for the customers with irregular connections;

(d) the installation of remote meters for consumers; and

(e) the installation of theft-proof equipment in problem areas.

Part 2: Outreach to Consumer Communities

Reestablishment of trust and definition of rules for communities benefiting from Part 1 of the Project, using the 24 Hours of Light Program as a starting point, including the development of social agreements (Pactos Sociales) between the respective EDE and the community affected. Said agreements will establish the commitment of the EDE to provide electricity for more hours in exchange for regularization of illegal connections and prompt payment of bills. Each affected community shall benefit, inter alia, from the following actions:

(a) the diagnosis of the socioeconomic characteristics of each community, as well as the diagnosis of the current status of the electrical service and formulation of intervention strategies;

(b) the development of consensus among EDEs, community leaders and organizations, and local authorities in support of the 24 Hours of Light Program;

(c) the carrying out of the necessary information, dissemination and community educational activities for the implementation of the 24 Hours of Light Program;
(d) the carrying out of monitoring and evaluation of the 24 Hours of Light Program; and

(e) the provision of training, preparation of accountability reports, as well as the preparation of community forums for the maintenance of the social network.

**Part 3: Technical Assistance and Project Management.**

(a) Provision of technical assistance and training to CDEEE for the debt restructuring of the EDEs, through: (i) the carrying out of legal and financial assessment on the amounts and legal status of the debts remaining after compensations have been paid; and (ii) the identification of a viable option for debt restructuring, followed by the preparation of a plan for its execution.

(b) Carrying out of periodic consumer satisfaction surveys in order to measure the level of satisfaction of consumers with respect to the quality of electricity services in the rehabilitated circuits.

(c) (i) Provision of technical assistance (including audits) and the financing of operational costs to UERS for Project coordination, implementation and supervision; and (ii) the design and implementation of a monitoring and evaluation system for the Project.

(d) Provision of technical assistance to the EDEs for the carrying out of: (i) external financial audits; and (ii) monitoring and audits on the performance of contractors hired under the Project.
SCHEDULE 2

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Project Implementing Entity shall maintain, until completion of the Project, a unit within its own structure (the UERS), with staff (including a procurement specialist), structure and functions satisfactory to the Bank (further elaborated in the Operational Manual), responsible for the management, coordination, supervision, monitoring and evaluation of the Project.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Project Implementing Entity and the Borrower shall enter into a subsidiary agreement, under terms and conditions approved by the Bank (“Subsidiary Agreement”), for the purposes of making the proceeds of the Loan available to the Project Implementing Entity, all in accordance with the terms and conditions set forth in Schedule 3 to this Agreement.

2. The Project Implementing Entity shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower, the Project Implementing Entity and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

3. For the purposes of carrying out Parts 1 and 2 of the Project, the Project Implementing Entity shall enter into an agreement with each EDE (the EDE Agreements), setting forth the technical, financial, administrative and fiduciary aspects of the participation of the Project Implementing Entity and each EDE in the implementation and use of funds under Parts 1 and 2 of the Project, all in accordance with the terms and conditions set forth in Schedule 2 to this Agreement.

4. The Project Implementing Entity shall exercise its rights under each EDEs Agreement in such manner as to protect the interests of the Project Implementing Entity, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive any of the EDEs Agreements or any of its provisions.

C. Anti-Corruption

The Project Implementing Entity shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.
D. Safeguards and Operational Considerations

1. The Project Implementing Entity shall carry out the Project in accordance with the provisions of a manual (the “Operational Manual”), satisfactory to the Bank, said manual to include, inter alia: (i) the procedures for the carrying out, monitoring and evaluation of the Project; (ii) the organizational structure of the Project (including the roles and responsibilities of CDEEE, and the three EDEs); (iii) the Project procurement and financial management requirements and procedures; (iv) Environmental Guidelines (Guía Ambiental para Proyectos de Distribución de Energía Eléctrica); (v) the standard environmental provisions to be included in the bidding documents for investments to be carried out under the Project; (vi) the Project’s chart of accounts and internal controls; (vii) the format of: (A) the unaudited interim financial reports referred to in Section II.B.2 of Schedule 2 to this Agreement; and (B) the Financial Statements; (viii) the terms of reference for carrying out the Project audits under Section II.B.3 of Schedule 2 to this Agreement; and (ix) the indicators to be used for Project monitoring and evaluation. In case of any inconsistency between any provision of the Operational Manual and this Agreement, the provision of this Agreement will prevail.

2. The Project Implementing Entity shall ensure (through the Subsidiary Agreement) that each EDE implements its respective medium-term plan for the rehabilitation of its networks, with priorities placed on circuits with probabilities of the greatest improvement in its CRI.

3. The Project Implementing Entity shall cause the EDEs to maintain in place and comply with the 24 Hours of Light Program, including its physical investments and community outreach activities.

4. The Project Implementing Agency shall, or shall cause the EDEs to:

   (a) have: (i) the CRI of the circuits rehabilitated under the Project and the EDEs as a whole; and (ii) the number of hours of electricity supply in the rehabilitated circuits, audited in a quarterly basis in accordance with consistently applied auditing standards and by independent auditors acceptable to the Bank; and

   (b) furnish to the Bank as soon as available, but in any case not later than ninety days after the closing of each quarter, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested.

5. The Project Implementing Entity shall cause the EDEs to provide the Project Implementing Entity on an annual basis, their operating costs audited as part of their financial statements audit.
Section II.  Project Monitoring, Reporting and Evaluation.

A.  Project Reports

1.  The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of the indicators set forth in the Operational Manual. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than forty five days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

2.  The Project Implementing Entity shall provide to the Borrower not later than three months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B.  Financial Management, Financial Reports and Audits

1.  The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2.  The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than four months after the end of the period.

Section III.  Procurement

A.  General

1.  Goods and Works.  All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2.  Consultants’ Services.  All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3.  Definitions.  The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to
the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
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</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
</tbody>
</table>

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Quality-Based Selection</td>
</tr>
<tr>
<td>(c) Selection based on Consultant’s Qualifications</td>
</tr>
<tr>
<td>(d) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(e) Individual Consultants</td>
</tr>
<tr>
<td>(f) Single Source Selection</td>
</tr>
</tbody>
</table>

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.
SCHEDULE 3

Terms and Conditions of the Subsidiary Agreement and EDEs Agreements

1. The Subsidiary Agreement shall contain, *inter alia*, the following provisions:

   (a) the obligation of the Borrower:

      (i) to promptly disburse to the Project Implementing Entity the proceeds of the Loan in a manner acceptable to the Bank; and

      (ii) to provide the necessary assistance to the Project Implementing Entity, as needed, under the Project;

   (b) the right of the Borrower to take remedial actions against the Project Implementing Entity in case said Project Implementing Entity shall have failed to comply with any of its obligations under the Subsidiary Loan Agreement in respect of the Project; and

   (c) the obligation of the Project Implementing Entity:

      (i) to use the money transferred under the Subsidiary Agreement for the financing of the cost of works, goods and provision of services and training (including the appropriate operating costs) under the Project;

      (ii) to comply with the terms of the Project Agreement;

      (iii) to cause the corresponding EDE to carry out the pertinent activities in accordance with the pertinent provisions of each EDEs Agreement;

      (iv) to take or permit to be taken all action to enable the Borrower to comply with its obligations under the Loan Agreement; and

      (v) to keep records and accounts for the expenditures financed under the Project.

2. Each EDEs Agreement shall contain, *inter alia*, the following provisions:

   (a) an agreement by each EDE to achieve the CRI levels corresponding to it, for the specific dates mentioned in the table below:
<table>
<thead>
<tr>
<th></th>
<th>EDENORTE %</th>
<th>EDESUR %</th>
<th>EDEESTE %</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 2008</td>
<td>57</td>
<td>62</td>
<td>62</td>
</tr>
<tr>
<td>December 2008</td>
<td>59</td>
<td>63</td>
<td>63</td>
</tr>
<tr>
<td>June 2009</td>
<td>60</td>
<td>64</td>
<td>64</td>
</tr>
<tr>
<td>December 2009</td>
<td>61</td>
<td>65</td>
<td>65</td>
</tr>
<tr>
<td>June 2010</td>
<td>63.5</td>
<td>67.5</td>
<td>67.5</td>
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<tr>
<td>December 2010</td>
<td>66</td>
<td>70</td>
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<tr>
<td>June 2011</td>
<td>68.5</td>
<td>72.5</td>
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<td>December 2011</td>
<td>71</td>
<td>75</td>
<td>75</td>
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<tr>
<td>June 2012</td>
<td>73.5</td>
<td>77.5</td>
<td>77.5</td>
</tr>
<tr>
<td>December 2012</td>
<td>75</td>
<td>80</td>
<td>80</td>
</tr>
</tbody>
</table>

(b) the establishment of: (i) a limit to the increase in the annual operating costs of each of the EDEs (excluding taxes, depreciation, certain fees and allowances for uncollectible bills), such limit not to exceed half the percentage of the increase of the total energy bills issued by the EDE in question, adjusted for inflation; and (ii) mechanisms on how to proceed in case the ceiling in the increase of operating costs described in (i) above is not achieved or is partially achieved.

(c) the obligation of CDEEE to on-lend to each EDE its corresponding amount of Loan proceeds, and to, on behalf of each EDE, use those proceeds to procure the necessary goods, works and services for the use and benefit of each EDE.

(d) the right of the Project Implementing Entity to take remedial actions against the pertinent EDE in case said EDE shall have failed to comply with any of its obligations under the pertinent EDE Agreement;

(e) a conflict resolution mechanism to solve any dispute or claim arising out of or relating to any of the obligations set forth in the EDEs Agreement, which is not settled by agreement of the parties;

(f) the obligation of each EDE:

(i) to prepare detailed budget, economic evaluations, engineering and design, as well as technical specifications for its respective part under Part 1 of the Project;
(ii) to participate actively in all procurement procedures, including bid evaluations and recommendations for award of contracts for the supply of goods, works and services;

(iii) to provide the pertinent information for the preparation and consequent updating of the Procurement Plan;

(iv) to provide the funds, facilities, services and other resources, necessary or appropriate to carry out the corresponding activities under the Project;

(v) to repay the proceeds assigned under the respective EDEs Agreement;

(vi) not to assign, amend, terminate, abrogate, repeal, waive or fail to enforce the EDEs Agreement or any provision thereof unless previously agreed by the Bank;

(vii) to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines; and

(viii) to furnish to the Bank their financial statements audited by an independent auditor in accordance with international standards on auditing, at an interval acceptable to the Bank.