CREDIT NUMBER 4000-VN

Development Credit Agreement

(Second Rural Energy Project)

between

SOCIALIST REPUBLIC OF VIETNAM

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 2005

CREDIT NUMBER 4000-VN

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 17, 2005, between SOCIALIST REPUBLIC OF VIETNAM (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 (the Project), has requested the Association to assist in the financing of the Project;

(B) Parts B, C and D of the Project will be carried out by Electricity of Vietnam and the Power Companies (as defined below) with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to Electricity of Vietnam and the Power Companies, as set forth in this Agreement;

(B) the Borrower has requested assistance from the resources of the Global Environment Facility (GEF) Trust Fund in the financing of Part E of the Project, the International Bank for Reconstruction and Development (the Bank) has determined that such assistance would be in accordance with Resolution No. 94-02 of the Executive Directors dated May 24, 1994, establishing the GEF Trust Fund, and by an agreement of even date herewith between the Borrower and the Bank acting as an implementing agency of the GEF (the GEF Trust Fund Grant Agreement), GEF is agreeing to provide such assistance in an aggregate amount of five million two hundred fifty thousand Dollars ($5,250,000) (the GEF Trust Fund Grant); 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 and in the agreement of even date herewith between the Association and Electricity of Vietnam and the Power Companies (the Project 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) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Category" means a category of items set forth in the table in paragraph 1 of Schedule 1 to this Agreement.

(b) "DAF" means the Development Assistance Fund, a state-owned financial institution, established and operating pursuant to Decree 50/1999/ND-CP.

(c) "DAF Special Account" means the account established for the purpose of Part A of the Project and referred to in Section 2.02 (b)(i) of this Agreement.

(d) "Displaced Persons" means persons who, on account of the execution of the Project, have experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land, resulting in (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such persons; and a "Displaced Person" means any of such Displaced Persons.

(e) "Dong", "Vietnamese Dong" and "VND" mean the currency of the Socialist Republic of Vietnam.

(f) "Environmental Assessment" means each assessment carried out, or, as the case may be, to be carried out, by or on behalf of a Project Province in respect of its respective Project activities, in accordance with the provisions of the Environmental Guidelines (as defined below), and setting forth an analysis of the potential physical and social impacts of Project activities within said Province, and measures to address such impacts, including alternative designs and mitigation measures.

(g) "Environmental Guidelines" means the Environmental Guidelines dated March 8, 2004, adopted by MOI through Decision 2249/QD-NLDK dated August 26, 2004 and by EVN through Instruction 4329/CV-EVN-KD & DNT dated September 1, 2004, and satisfactory to the Association, which sets forth policies and procedures for the preparation of Environmental Assessment for the Project activities of each Project Province, referred to in paragraph 10 of Schedule 4 to this Agreement and in paragraph 3 of Schedule 2 to the Project Agreement.

(h) "Environmental Management Plan" means each plan, satisfactory to the Association, prepared, or, as the case may be, to be prepared, by or on behalf of a Project Province, in accordance with the Environmental Guidelines and as part of the Environmental Assessment of the Project activities of said Project Province, and referred

to in paragraph 10 of Schedule 4 to this Agreement and in paragraph 3 of Schedule 2 to the Project Agreement, which sets out the environmental protection measures in respect of said Project activities, as well as administrative and monitoring arrangements to ensure the implementation of said Plan, as said Plan may be revised from time to time with the agreement of the Association.

(i) "Ethnic Minorities Development Plan" and "EMDP" mean each plan, satisfactory to the Association, prepared, or to be prepared, by or on behalf of a Project Province and PC1, PC2 or PC3, as the case may be, pursuant to the policies and procedures set forth in the Ethnic Minorities Development Strategy (as defined below), to ensure that ethnic minority communities within the Project area of said Project Province benefit from the Project in a socially and culturally acceptable manner.

(j) "Ethnic Minorities Development Strategy" means the strategy dated March 8, 2008, adopted by MOI through Decision 2249/QD-NLDK of August 26, 2004, and by EVN through Instruction 4329/CV-EVN-KD &DNT dated September 1, 2004, satisfactory to the Association, referred to in paragraph 12 of Schedule 4 to this Agreement and in paragraph 5 of Schedule 2 to the Project Agreement, which sets out the policies and procedures to ensure meaningful consultation with, and the informed participation of, ethnic minorities within the Project area who are affected by the Project, and principles for the preparation of ethnic minorities development plans as may be required during implementation of the Project, as said Strategy may be revised from time to time with the prior concurrence of the Association.

(k) "EVN" means Electricity of Vietnam, an enterprise established pursuant to Decision No. 562/TTg of the Prime Minister of the Socialist Republic of Vietnam, dated October 10, 1994, operating under the EVN Charter, responsible for developing, operating and maintaining, directly or indirectly, facilities for the generation, transmission and distribution of electricity throughout the Borrower's territory, and any successor thereto.

(l) "EVN Charter" means the Charter of EVN issued under Decree 14/CP of the Government of the Socialist Republic of Vietnam, dated January 27, 1995.

(m) "Financial Monitoring Report" and "FMR" mean each report prepared in accordance with Section 4.02 of this Agreement, or with Section 4.02 of the Project Agreement, as the case may be.

(n) "LDU" means a local electricity distribution utility.

(o) "LV" means low voltage.

(p) "MOF" means the Borrower's Ministry of Finance, and any successor thereto.

(q) "MOI" means the Borrower's Ministry of Industry, and any successor thereto.

(r) "MOI Special Account" means the account established for the purpose of Part E of the Project and referred to in Section 2.02 (b)(v) of this Agreement.

(s) "MV" means medium voltage.

(t) "PC1" means Power Company No. 1, a fully owned subsidiary of EVN, established and operating pursuant to the PC1 Charter, and any successor thereto.

(u) "PC1 Charter" means the Charter of PC1 dated April 7, 1995, as amended to the date of this Agreement.

(v) "PC1 Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower, through MOF, and PC1 pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules thereto.

(w) "PC1 Special Account" means the account established for the purpose of Part B of the Project and referred to in Section 2.02 (b)(ii) of this Agreement.

(x) "PC2" means Power Company No. 2, a fully owned subsidiary of EVN, established and operating pursuant to the PC2 Charter, and any successor thereto.

(y) "PC2 Charter" means the Charter of PC2 dated April 28, 1995, as amended to the date of this Agreement.

(z) "PC2 Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower, through MOF, and PC2 pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules thereto.

(aa) "PC2 Special Account" means the account established for the purpose of Part C of the Project and referred to in Section 2.02 (b)(iii) of this Agreement.

(bb) "PC3" means Power Company No. 3, a fully owned subsidiary of EVN, established and operating pursuant to the PC3 Charter, and any successor thereto.

(cc) "PC3 Charter" means the Charter of PC3 dated June 17, 1995, as amended to the date of this Agreement.

(dd) "PC3 Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower, through MOF, and PC3 pursuant to Section 3.02 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules thereto.

(ee) "PC3 Special Account" means the account established for the purpose of Part D of the Project and referred to in Section 2.02 (b)(iv) of this Agreement.

(ff) "Phase I Project Provinces" means the Borrower's Provinces of Vinh Phuc, Ha Tinh, Ca Mau, Ben Tre, Quang Ngai and Phu Yen, which have met the criteria set forth in paragraph 6 of Schedule 4 to this Agreement.

(gg) "Power Companies" means, collectively, Power Company No. 1 or PC1, Power Company No. 2 or PC2, and Power Company No. 3 or PC3; and a "Power Company" means any of said Power Companies.

(hh) "Procurement Plan" means, collectively: (i) the Borrower's procurement plan for Part E of the Project, dated August 2004; (ii) the PC1's procurement plan for Part B of the Project dated August 24, 2004; (iii) the PC2's procurement plan for Part C of the Project dated August 24, 2004; (iv) the PC3's procurement plan for Part D of the Project dated August 23, 2004; and (v) the respective procurement plans of the Phase I Project Provinces for the Low Voltage electricity grid networks under Part A of the Project, dated respectively August 25, 2004 (Vinh Phuc, Ha Tinh, Ben Tre and Ca Mau), and August 23, 2004 (Phu Yen and Quang Ngai); in each case covering the initial 18 month period (or longer) of implementation of said Parts of the Project, as the same shall be updated from time to time in accordance with the provisions of Section 3.03 (b) to this Agreement and Section 2.02 (b) of the Project Agreement, as the case may be, to cover succeeding 18 month periods (or longer) of Project implementation.

(ii) "Project Agreement" means the agreement of even date herewith between the Association, the Bank, acting as an Implementing Agency of the GEF, and EVN, PC1, PC2 and PC3, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(jj) "Project Provinces" means, collectively, the Borrower's Phase I Project Provinces and Project Provinces of Later Phases, listed in the Annex to Schedule 2, as said list may be modified from time to time by mutual agreement between the Borrower and the Association.

(kk) "Resettlement Plan" and "RP" mean each action plan, satisfactory to the Association, prepared, or, as the case may be, to be prepared, by or on behalf of each Project Province and PC1, PC2 or PC3, as the case may be, in accordance with the provisions of the Resettlement Policy Framework (as defined below), and referred to in paragraph 11 of Schedule 4 to this Agreement and in paragraph 4 of Schedule 2 to the Project Agreement, said Plan setting forth the policies and procedures for the acquisition of land and/or other assets, resettlement, compensation and rehabilitation of Displaced Persons in connection with the respective Project activities of said Project Province and the Respective Part of the Project of the relevant Power Company, as said Plan may be revised from time to time with the prior concurrence of the Association.

(ll) "Resettlement Policy Framework" means the Framework dated March 8, 2004, approved by the Borrower through the Prime Minister's Decision 864/QD-Ttg of August 10, 2004, and adopted by MOI through Decision 2249/QD-NLDK dated August 26, 2004, and by EVN through Instruction 4349/CV-EVN-KD &DNT dated September 1, 2004, satisfactory to the Association, and referred to in paragraph 11 of Schedule 4 to this Agreement and in paragraph 4 of Schedule 2 to the Project Agreement, which sets out the policies and procedures for the acquisition of land and other assets, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement plans, as may be required, during the implementation of the Project, as said Policy Framework may be revised from time to time with the prior concurrence of the Association.

(mm) "Respective Part of the Project" means: (i) for each Project Province, its respective Project activities under Part A of the Project; (ii) for PC1, Part B of the Project; (iii) for PC2, Part C of the Project; and (iv) for PC3, Part D of the Project.

(nn) "Special Accounts" means, collectively, the DAF Special Account, the MOI Special Account, the PC1 Special Account, the PC2 Special Account and the PC3 Special Account, all referred to in Section 2.02 (b) of this Agreement; and a "Special Account" means any of said Special Accounts.

(oo) "Subsidiary Loan Agreements" means collectively the PC1 Subsidiary Loan Agreement, the PC2 Subsidiary Loan Agreement and the PC3 Subsidiary Loan Agreement; and a "Subsidiary Loan Agreement" means any of said Subsidiary Loan Agreements.

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 the Development Credit Agreement, an amount in various currencies equivalent to one hundred fifty-one million one hundred thousand Special Drawing Rights (SDR151,100,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, open and maintain in Dollars:

(i) a special deposit account for purposes of Part A of the Project (the DAF Special Account);

(ii) a special deposit account for purposes of Part B of the Project (the PC1 Special Account);

(iii) a special deposit account for purposes of Part C of the Project (the PC2 Special Account);

(iv) a special deposit account for purposes of Part D of the Project (the PC3 Special Account); and

(v) a special deposit account for purposes of Part E of the Project (the MOI Special Account);

in each case 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, each respective 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, 2011 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 the 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 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 April 15 and October 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 April 15 and October 15 commencing April 15, 2015, and ending October 15, 2044. Each installment to and including the installment payable on October 15, 2024 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 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 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 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 Part A of the Project through the Project Provinces, and Part E of the Project through the Ministry of Industry; and without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause EVN together with each of PC1, PC2 and PC3 to carry out Parts B, C and D of the Project, respectively; and shall cause each of EVN, PC1, PC2 and PC3 to perform in accordance with the provisions of the Project Agreement all of its respective obligations therein set forth; all with due diligence and efficiency and in conformity with appropriate administrative, management, financial, engineering and public utility practices, and environmental and social standards acceptable to the Association; shall provide and cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project, and shall take and cause each of EVN and PC1, PC2 and PC3 to take all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable each of them to perform its respective obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts A and E of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. (a) For purposes of Part A of the Project, the Borrower shall, through MOF and DAF, make portions of the amount of the Credit allocated from time to time to Categories (1)(a) and (2)(a) available to the Project Provinces for their respective Project activities, under terms and conditions and onlending instruments acceptable to the Association, which shall include the following:

(i) each Project Province shall repay to the Borrower, through MOF, the principal amount thus made available to it over a term of twenty (20) years including a grace period of five (5) years;

(ii) the principal amount so made available to each Project Province and outstanding from time to time shall bear interest at a rate of one percent (1%) per annum; and

(iii) the principal amount to be repaid by each Project Province shall the equivalent in Vietnamese Dong (determined as of the date or dates respectively of withdrawal from the Credit Account or of payment out of the DAF Special Account, as the case may be) of the value of currency or currencies so withdrawn or paid out in respect of the portion of the Credit allocated to Categories (1)(a) and (2)(a) and made available to said Project Province.

(b) For purposes of Parts B, C and D of the Project, the Borrower shall make available: (i) to PC1, the portion of the proceeds of the Credit allocated from time to time to Categories (1)(b) and (2)(b); (ii) to PC2, the portion of the proceeds of the Credit allocated from time to time to Categories (1)(c) and (2)(c); and (iii) to PC3, the portion of the proceeds of the Credit allocated from time to time to Categories (1)(d) and (2)(d); in each case under a subsidiary loan agreement to be entered into between the Borrower, through MOF, and each of PC1, PC2 and PC3, under terms and conditions which shall have been approved by the Association which shall include the following:

(i) the principal amount of the Subsidiary Loans repayable by PC1, PC2 and PC3 shall be the equivalent in Dollars (determined as of the date, or respective dates of withdrawal from the Credit Account) of the value of the currency or currencies withdrawn from the Credit Account in respect of the Categories referred to above in this Section 3.02 (b);

(ii) PC1, PC2 and PC3 shall repay the Subsidiary Loans over a term of twenty-five(25) years, including a grace period of seven (7) years;

(iii) interest at the rate of one percent (1%) per annum shall be charged on the principal amount of the Subsidiary Loans outstanding from time to time; and

(iv) a commitment charge at a rate per annum equal to the rate applicable under Section 2.04 of this Agreement shall be charged on the principal amount of the Subsidiary Loans so made available and not withdrawn from time to time.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreements 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 any of the Subsidiary Loan Agreements or any provision thereof.

Section 3.03. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A and E.1 (a) of 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, and cause to be updated, the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.04. 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 designed to ensure the continued achievement of the objectives of Parts A and E of the Project; and

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

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts B, C and D of the Project shall be carried out by PC1, PC2 and PC3 respectively pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, in respect of Parts A and E of the Project, establish and maintain, and cause to be established and maintained, 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 said Parts of the Project.

(b) The Borrower shall:

(i) have, and shall cause to have, the records, accounts and 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, and cause to be furnished, to the Association 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 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, and cause to be furnished, 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 shall:

(i) retain, and cause to be retained, until at least one 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 13 of Schedule 4 to this Agreement, in respect of Parts A and E of the Project, the Borrower shall prepare, consolidating therein information provided by the Project Provinces, and furnish to the Association a financial monitoring report, 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 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 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) EVN, PC1, PC2 or PC3 shall have failed to perform any of its respective obligations under the Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that EVN, PC1, PC2 or PC3 will be able to perform its respective obligations under the Project Agreement.

(c) The EVN Charter, PC1 Charter, PC2 Charter or PC3 Charter shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EVN, PC1, PC2 or PC3, respectively, to perform any of its obligations under the Project Agreement.

(d) (i) Subject to subparagraph (ii) of this paragraph (d), the right of the Borrower to withdraw the proceeds of the GEF Trust Fund Grant made to the Borrower for the financing of Part E 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;

(ii) Subparagraph (i) of this paragraph (d) 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 said 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(h) 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 and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraph (c) of Section 5.01 of this Agreement shall occur.

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 GEF Trust Fund Grant Agreement has been 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 the Development Credit Agreement, have been fulfilled;

(b) the Subsidiary Loan Agreements satisfactory to the Association, have been executed on behalf of the Borrower and PC1, PC2 and PC3, respectively, pursuant to the provisions of Section 3.02 (b) of this Agreement;

(c) the Borrower, through MOF, and each of the Phase I Project Provinces have entered into onlending arrangements satisfactory to the Association, pursuant to the provisions of Section 3.02 (a) of this Agreement;

(d) DAF has: (i) adopted a financial management manual; (ii) appointed a financial officer and staff and completed their training in financial management and disbursement; and (iii) installed a computerized accounting system, all in a manner satisfactory to the Association, in accordance with the provisions of paragraph 8 of Schedule 4 to this Agreement; and

(e) the Borrower has adopted a Project Implementation Plan satisfactory to the Association in accordance with the provisions of paragraph 4 of Schedule 4 to this Agreement.

Section 6.02. The following are specified as additional matter, 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) that the Project Agreement has been duly authorized by EVN, PC1, PC2 and PC3, and is legally binding upon each of them in accordance with its terms;

(b) that each of the Subsidiary Loan Agreements has been duly authorized and is legally binding upon the parties thereto in accordance with its respective terms;

(c) (i) the Resettlement Policy Framework has been duly approved by the Borrower's Prime Minister; the Resettlement Policy Framework and the Ethnic Minorities Development Strategy have been duly adopted by MOI and by EVN; and (ii) the Resettlement Policy Framework, the Ethnic Minorities Development Strategy, the Resettlement Plans and the Ethnic Minorities Development Plans of the Phase I Project Provinces are legally binding upon the Borrower, EVN, PC1, PC2, PC3 and the Phase I Project Provinces in accordance with their respective terms.

Section 6.03. The date ninety (90) 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 Governor or any Deputy Governor of the State Bank of Vietnam 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:

State Bank of Vietnam
49 Ly Thai To
Hanoi
Socialist Republic of Vietnam

Cable address:	Telex:	Facsimile:
VIETBANK	412248	(84-4) 825 0612
Hanoi	NHTWVT	

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)	(1-202) 477-6391
Washington, D.C.	or 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 Hanoi, Socialist Republic of Vietnam, as of the day and year first above written.

SOCIALIST REPUBLIC OF VIETNAM

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works:		100%
(a) under Part A of the Project	72,200,000	
(b) under Part B of the Project	14,600,000	
(c) under Part C of the Project	3,800,000	
(d) under Part D of the Project	6,300,000	
(2) Goods:		100%
(a) under Part A of the Project	39,600,000	
(b) under Part B of the Project	8,000,000	
(c) under Part C of the Project	2,100,000	
(d) under Part D of the Project	3,500,000	
(3) Consultants' Services under Part E.1 (a) of the Project	1,000,000	100%
TOTAL	151,100,000	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement except that:

(a) withdrawals, in an aggregate amount not exceeding the equivalent of SDR2,000,000 may be made in respect of Categories (1)(a) and (2)(a) under Part A of the Project

(b) withdrawals, in an aggregate amount not exceeding the equivalent of SDR700,000 may be made in respect of Categories (1)(b) and (2)(b) under Part B of the Project;

(c) withdrawals, in an aggregate amount not exceeding the equivalent of SDR700,000 may be made in respect of Categories (1)(c) and (2)(c) under Part C of the Project;

(d) withdrawals, in an aggregate amount not exceeding the equivalent of SDR500,000 may be made in respect of Categories (1)(d) and (2)(d) under Part D of the Project; and

(e) withdrawals, in an aggregate amount not exceeding the equivalent of SDR100,000 may be made in respect of Category 3 under Part E.1 (a) of the Project.

on account of payments made for expenditures before that date but after September 2, 2004.

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: (a) works costing less than $200,000 equivalent per contract; (b) goods costing less than $150,000 equivalent per contract; (c) services of consulting firms costing less than $100,000 equivalent per contract; and (d) services of individual consultants costing less than $50,000 equivalent per contract; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower to support the socio-economic development of rural communities within the Project Provinces through improved access to good quality and affordable electricity services provided in an efficient and sustainable manner.

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: Low Voltage Systems

Carry out a program of rehabilitation and expansion of LV electric power grid networks in selected Provinces, through the provision of equipment for and construction of distribution lines to improve and extend electric power supply to households in about 1,200 selected communes.

Part B: Medium Voltage System in the Northern Region

Rehabilitate and expand the MV electric power distribution grid in those communes in the Northern Region selected to participate in Part A of the Project, through the provision of equipment for and construction of MV lines and substations.

Part C: Medium Voltage System in the Southern Region

Rehabilitate and expand the MV electric power distribution grid in those communes in the Southern Region selected to participate in Part A of the Project, through the provision of equipment for and construction of MV lines and substations.

Part D: Medium Voltage System in the Central Region

Rehabilitate and expand the MV electric power distribution grid in those communes in the Central Region selected to participate in Part A of the Project, through the provision of equipment for and construction of MV lines and substations.

Part E: Institutional Development

1. (a) Develop and implement a regulatory framework for local electricity distribution utilities (LDUs); formulation of curricula and training program to improve the technical level in electric power distribution job functions; and develop standard specifications for planning, installation, maintenance and safety of LV electric power distribution systems;

(b) Provide training to regulators; and

(c) Develop regulatory, institutional and employee incentives to maximize efficiency and promote high performance levels.

2. Carry out a program to: (a) identify the most appropriate structure for LDUs and assist them in attaining legal status; and (b) develop the technical, management and financial capacity of LDUs, including developing and providing training and support programs for their management and staff in business systems and procedures, in financial development and management, and in planning and engineering.

3. Evaluate and disseminate best practices in the development, operation and reform of LDUs.

* * *

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

Annex to Schedule 2

List of Project Provinces

1. **Phase I**

Vinh Phuc
Ha Tinh
Ca Mau
Ben Tre
Quang Ngai
Phu Yen

2. **Later Phases**

Nghe An
Yen Bai
Tay Ninh
Dong Thap
Quang Tri
Thua Thien – Hue
Lao Cai
Cao Bang
Lai Chau
Hoa Binh
Phu Tho
Thai Nguyen
Bac Giang
Ha Tay
Hai Duong
Hung Yen
Thai Binh
Ha Nam
Nam Dinh
Thanh Hoa
Ninh Thuan
Can Tho
Quang Binh
Binh Dinh

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 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 methods or methods of review by the Association 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 for goods and services (other than consultants' services) 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. National Competitive Bidding. Works may be procured under contracts awarded on the basis of National Competitive Bidding. The procedures to be followed for National Competitive Bidding under this Paragraph 1, Part B, shall be those set forth in Decree No. 88/1999/ND-CP dated September 1, 1999, of the Government of the Socialist Republic of Vietnam, as amended and supplemented by Decree No. 14/2000/ND-CP dated May 5, 2000 and Decree No. 66/2003/ND-CP dated June 12, 2003 (Decree No. 88/1999/ND-CP, Decree No. 14/2000/ND-CP, and Decree No. 66/2003/ND-CP, together "the Regulations"), with the clarifications set forth in the Annex to this Schedule 3 required to comply with the provisions of the Procurement Guidelines.

2. Shopping. Goods estimated to cost less than $50,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

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 III, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than $200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Based on Consultants' Qualifications. Services estimated to cost less than $100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

2. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

3. 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, with the Association's prior agreement, be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

1. 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) for each of PC1, PC2, PC3 and each Project Province, the first three contracts for works procured in accordance with the provisions of paragraph B.1 of Section II above;

(b) all contracts for works procured in accordance with the provisions of paragraph B.1 of Section II above, estimated to cost the equivalent of $200,000 or more;

(c) all contracts for goods estimated to cost the equivalent of $150,000 or more;

(d) all contracts with consulting firms estimated to cost the equivalent of $100,000 or more, and with individual consultants estimated to cost the equivalent of $50,000 or more; and

(e) all contracts with consulting firms and individual consultants selected on a single source basis regardless of costs.

2. All other contracts shall be subject to Post Review by the Association.

Annex to Schedule 3

National Competitive Bidding

In order to ensure economy, efficiency, transparency and broad consistency with the provision of Section I of the Guidelines, the procedures normally used for public procurement in the Socialist Republic of Vietnam shall be modified in accordance with the following provisions:

Participation in bidding and preferences

(i) For clarification purposes, it is understood that the last sentence of the amended Paragraph (c), Section 2, Article 2 of Decree 88/ND-CP which states that "All the procedures for submission, appraisal and approval of procurement plan and bidder selection results shall follow the Procurement Regulation" means "Approvals of draft bidding documents, bid evaluation reports and proposals for award shall be obtained in accordance with the relevant rules and procedures of the Procurement Regulation".

(ii) Government-owned enterprises in Vietnam shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law, and are not a dependent agency of the Borrower or the procuring entity. Military or security units, or enterprises which belong to the Ministry of Defense or the Ministry of Public Security shall not be permitted to bid.

(iii) Foreign bidders shall be eligible to participate in bidding under the same conditions as local bidders, and local bidders shall be given no preference (either in the bidding process or in bid evaluation) over foreign bidders, nor shall bidders located in the same province or city as the procuring entity be given any such preference over bidders located outside that city or province.

(iv) Bidders shall be allowed to participate in bidding without being listed in the Government Database on Bidder Information.

(v) Foreign bidders shall not be required, in order to participate in bidding, to enter into a joint venture with a local bidder, or to subcontract part of their contract to a local bidder.

(vi) If there is prequalification, *all* prequalified bidders shall be invited to bid.

(vii) If there is limited bidding because there are only a limited number of bidders who can meet the requirements of the bidding documents, *all* of these bidders shall be invited to bid.

(viii) Bidders shall not be required, as a condition of participation in the bidding, to provide suppliers' credits.

Advertising; time for bid preparation

(ix) Invitations to bid shall be advertised in at least one widely circulated national newspaper. In addition, the Borrower is encouraged to advertise in the Government Public Procurement Bulletin when established and on a free and open access website.

Standard Bidding Documents

(x) The Borrower's standard bidding documents shall be acceptable to the Bank. The bidding documents shall provide clear instructions on how bids should be submitted, how prices should be offered, and the place and time for submission of bids. A minimum of 30 days for the preparation and submission of bids shall be provided. Bidders shall be allowed to submit bids by hand or by mail.

Qualification criteria and evaluation criteria

(xi) Qualification criteria shall be clearly specified in the bidding documents, *and* all criteria so specified, and *only* criteria so specified, shall be used to determine whether a bidder is qualified. Qualifications of a bidder found to meet the specified qualification criteria shall not be taken into account in the evaluation of such bidder's bid.

(xii) Evaluation criteria shall be clearly specified in the bidding documents, and evaluation criteria other than price shall be quantified in monetary terms. *All* evaluation criteria so specified, and *only* evaluation criteria so specified, shall be taken into account in bid evaluation. Merit points shall not be used in bid evaluation.

Bid evaluation and award of contract

(xiii) Bids received after the deadline for bid submission shall be returned to the bidders unopened.

(xiv) A bid containing material deviations from, or reservations to, the terms, conditions or specifications of the bidding documents shall be rejected as not substantially responsive. A bidder shall not be permitted to withdraw material deviations or reservations once bids have been opened.

(xv) Evaluation of bids shall be made in strict adherence to the criteria specified in the bidding documents, and contracts shall be awarded to the qualified bidder offering the lowest evaluated and responsive bid.

(xvi) A bidder shall not be required, as a condition for award, to undertake obligations not specified in the bidding documents, or otherwise to modify the bid as originally submitted.

(xvii) There shall be no post-bidding negotiations with the lowest or any other bidder.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall maintain throughout the period of Project implementation:

(a) an inter-ministerial Steering Committee under the chairmanship of the Ministry of Industry, with representation from, inter alia, the Office of Government, the Ministries of Finance, Planning and Investment, Agriculture and Rural Development, State Bank of Vietnam, and EVN, and assigned with such powers, responsibilities and resources as may be necessary, to provide overall policy coordination and guidance in the implementation of the Project; and

(b) the Project Management Board of MOI to be responsible for overall monitoring and coordination of Project activities and, more specifically, for the implementation of Part E of the Project; said Board to be under the management of an experienced Project Director, and provided with sufficient resources and staffed with competent personnel in adequate numbers, all in a manner satisfactory to the Association.

2. For purposes of Part A of the Project, the Borrower shall, through MOI, establish and, thereafter throughout the period of Project implementation, maintain a Project Implementation Group under the Project Management Board of MOI, to oversee and provide support to the Project Provinces in the implementation of said Part of the Project; said Project Implementation Group to be under the direction of a qualified and experienced Project Manager, provided with sufficient resources, and staffed with competent personnel in adequate numbers, all in a manner satisfactory to the Association.

3. For purposes of Part E of the Project, the Borrower shall establish and, throughout the period of Project implementation, maintain a Consultative Group with members with adequate expertise in regulatory, institutional, financial, technical and commercial matters related to public utilities, and in particular to electricity distribution, to support and advise the Steering Committee, the Project Management Board and the Project Provinces in regard to implementation of the institutional development and capacity building program.

4. To guide the implementation of the Project, the Borrower, through MOI in cooperation with EVN and PC1, PC2 and PC3, shall prepare and implement a Project Implementation Plan satisfactory to the Association; said Project Implementation Plan setting out in particular: (i) the institutional arrangements to be established and maintained for each Part of the Project; (ii) the financial management procedures and requirements; (iii) the procedures and coordination arrangements necessary to ensure the harmonization and synchronized implementation of procurement activities for the LV electricity grid networks under Part A of the Project to be carried out by the Project

Provinces and for the MV electricity grid networks under Parts B, C and D of the Project to be carried out by the Power Companies; and (iv) the Environmental Guidelines, the Resettlement Policy Framework and the Ethnic Minorities Development Strategy.

Implementation of Parts A and E of the Project

5. (a) For purposes of Part A of the Project, by October 1 of each year, commencing in 2005, the Borrower, through MOI in cooperation with EVN and the Power Companies, shall prepare and furnish to the Association for its approval, the program of work for the next succeeding calendar year; said program to include: (i) a list of Project Provinces together with selected communes whose proposed activities under Part A of the Project have been appraised in a manner satisfactory to the Association and are ready to be implemented in the next succeeding calendar year, pursuant to the provisions of paragraph 6 below; (ii) the budget and funding sources for such Project activities; (iii) the procurement plan for said Project Provinces and selected communes covering the next succeeding calendar year; and (iv) a list of Project Provinces and their selected communes which will be appraised during the next succeeding calendar year.

(b) Project activities in the selected communes referred to in sub-paragraph (a)(i) of this paragraph 5, shall only begin and be financed under the Credit after the Association has reviewed the selection of the communes, the results of their appraisal and the program of work, and has communicated its no-objection to the Borrower.

6. For purposes of Part A of the Project, the Borrower shall, through MOF and DAF, make a portion of the proceeds of the Credit available to each Project Province in accordance with the provisions of Section 3.02 (a) of this Agreement, but only on condition that:

(a) said Project Province shall have established and agreed to maintain for the period of Project implementation: (i) a Provincial Steering Committee for overall policy coordination and guidance of Project activities in said Province; said Committee to be provided with such powers, responsibilities and resources as shall be necessary; (ii) a Provincial Project Management Unit to be responsible for the management and execution of Project activities within said Project Province; said Unit to be under the direction of experienced managers, staffed with competent personnel in adequate numbers, including financial staff with qualifications and experience and under terms of reference acceptable to the Association, who have completed training in financial management and disbursement satisfactory to the Association, and provided with sufficient resources, all in a manner satisfactory to the Association; and (iii) an accounting system satisfactory to the Association;

(b) said Project Province shall have: (i) approved the feasibility study for the rehabilitation and expansion of the LV electricity distribution networks within its territory under Part A of the Project; (ii) prepared, or caused to be prepared, as may be required pursuant to the Resettlement Policy Framework and the Ethnic Minorities

Development Strategy, a resettlement plan and/or an ethnic minorities development plan satisfactory to the Association; (iii) completed, or caused to be completed, an environmental assessment and prepared, or caused to be prepared, an environmental management plan, satisfactory to the Association, in accordance with the Environmental Guidelines;

(c) said Project Province shall have provided to MOI a letter of commitment satisfactory to MOI and the Association, setting forth its commitment to: (i) make available all necessary funds, facilities and other resources for the implementation of its respective Project activities; (ii) enter into an onlending arrangement with MOF in accordance with the provisions of Section 3.02(a) of this Agreement; (iii) implement its Project activities in accordance with the guidelines and procedures set forth in the Project Implementation Plan referred to in paragraph 4 above, in particular in respect of (A) financial management procedures, and (B) cooperation and coordination with the respective Power Company for procurement for and construction of its LV electricity networks; (iv) take all necessary actions to establish LDUs with appropriate legal structure and full legal personality; and (v) upon completion of rehabilitation and expansion of the LV electricity distribution networks and of an evaluation of existing assets, transfer said networks and existing assets to the respective LDUs for their management, operation and maintenance, under financial arrangements acceptable to the Association which, unless otherwise agreed by the Association, shall include the terms and conditions set forth in the Annex to this Schedule 4. The onlending instrument between said Project Province and the Borrower, through MOF and DAF, shall reflect the commitments of said Project Province as set forth above; and the Borrower shall, through MOF and DAF, exercise its rights under such onlending instrument in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the Project, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the onlending instrument with a Project Province or any provision thereof.

(d) said Project Province shall have obtained from each selected commune a confirmation, in form and substance satisfactory to MOI and the Association, that households within the commune: (i) have been informed of and consulted on the Project, its design, requirements and anticipated benefits; (ii) have agreed to pay for the costs of the new household connections to the LV electricity distribution network; and (iii) have agreed to the replacement of existing meters, at the cost of the Project Province or the relevant LDU, and/or other household connecting equipment which do not comply with technical specifications; and

(e) appraisal by the Association of Project activities proposed for said Project Province and the selected communes therein has been satisfactorily completed.

7. The Borrower, through MOI, shall cause each Project Province to:

(a) select for participation in the Project only those communes which, unless otherwise agreed by the Association, meet the following criteria, namely Project activities within said communes have: (i) an economic internal rate of return, calculated in a manner acceptable to the Association, of no less than 10%; and (ii) a financial internal rate of return, calculated in a manner acceptable to the Association, of no less than 2.25%.

(b) enter into financial arrangements acceptable to the Association with the LDUs of the selected communes for the purposes of the transfer to said LDUs of the LV electricity distribution networks and related assets in such communes; said financial arrangements, unless otherwise agreed by the Association, shall include the terms and conditions set forth in the Annex to this Schedule 4;

(c) exercise its rights under its financial arrangements with the LDUs in such manner as to protect the interests to the Borrower and the Association, and to accomplish the purpose of the Project; and except as the Association shall otherwise agree, not assign, amend, abrogate or waive such arrangements or any provision thereof; and

(d) take all action necessary to enable such LDUs to be and remain financially sustainable in accordance with the provisions of their respective business plans as appraised by the Association and MOI.

8. The Borrower, through MOF, shall cause DAF to:

(a) prepare and adopt a financial management manual for purposes of Part A of the Project, satisfactory to the Association; said manual setting forth, inter alia: (i) the flow of funds from MOF through DAF to the Project Provinces; (ii) procedures for disbursement of the portion of Credit proceeds to be made available to the Project Provinces and collection of repayment from the Project Provinces for repayment to the Borrower; and (iii) guidelines and procedures for recording and reporting on the funds disbursed to and collected from the Project Provinces;

(b) appoint a financial officer and two accountants with qualifications and experience satisfactory to the Association to be responsible for the management of disbursement to and collection from the Project Provinces pursuant to the provisions of the financial management manual referred to in sub-paragraph (a) above; and complete the provision of training for such officer and staff in financial management and disbursement in accordance with the provisions of the financial management manual; and

(c) procure and install a computerized accounting system acceptable to the Association.

9. Without limitation to the provisions of Section 3.01 (a), the Borrower shall take all action necessary, which may include financial restructuring, promotion of private sector participation, promotion of efficiency and adjustment of tariffs, to enable EVN and

the Power Companies to comply with the financial covenants set forth in paragraphs 9, 10 and 11 of Schedule 2 to the Project Agreement.

Environment Protection, Resettlement and Ethnic Minorities

10. The Borrower shall cause the Project Provinces, EVN and the Power Companies to:

(a) implement the Environmental Guidelines and the environmental assessments and environmental management plans prepared pursuant thereto, in a manner satisfactory to the Association, and designed to ensure that the Project is implemented in accordance with sound environmental practices and standards;

(b) provide to the Association for its prior approval any revision proposed to be introduced into said Guidelines and any of said environmental management plans in order to achieve their objectives, and thereafter introduce such revision into said Guidelines and plans as shall have been agreed with the Association; and

(c) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Guidelines and plans and the achievement of their objectives.

11. The Borrower shall cause the Project Provinces, EVN and the Power Companies to:

(a) implement the Resettlement Policy Framework in a manner satisfactory to the Association;

(b) wherever implementation of the Project or any part thereof, would give rise to Displaced Persons, prepare and provide to the Association for its approval a resettlement plan prepared in accordance with the principles and procedures set forth in said Framework and, thereafter, implement in a manner satisfactory to the Association, such resettlement plan as shall have been approved by the Association;

(c) provide to the Association for its prior approval any revision proposed to be introduced into said Framework or any of said resettlement plans in order to achieve their objectives, and thereafter introduce such revision into said Framework or said resettlement plans as shall have been agreed with the Association; and

(d) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Framework and said resettlement plans, and the achievement of their objectives.

12. The Borrower shall cause the Project Provinces, EVN and the Power Companies to:

(a) implement the Ethnic Minorities Development Strategy in a manner satisfactory to the Association, designed to provide meaningful consultation with, and the informed participation of, ethnic minority groups within the Project area, and to ensure that benefits under the Project are socially and culturally acceptable to such groups;

(b) whenever implementation of the Project or any part thereof would take place in areas where an ethnic minority community reside, prepare and provide to the Association for its approval an ethnic minorities development plan prepared in accordance with the principles and procedures set forth in said Strategy and with the full participation of such ethnic minority community, designed to ensure that Project activities adequately address the needs, cultural practices and preferences of such community; and, thereafter, implement in a manner satisfactory to the Association, such ethnic minorities development plan as shall have been approved by the Association;

(c) provide to the Association for its prior approval any proposed revision of said Strategy or any of said ethnic minorities development plans, and thereafter introduce such revision into said Strategy or said plans as shall have been agreed with the Association; and

(d) maintain policies and procedures adequate to enable them to monitor and evaluate, in accordance with guidelines acceptable to the Association, the implementation of said Strategy and said ethnic minorities development plans, and the achievement of their objectives.

Monitoring and Reporting

13. The Borrower shall:

(a) maintain, and cause to be maintained, 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, (i) on or about January 31 and July 31 of each year, beginning January 31, 2006, a semi-annual report, and (ii) on or about January 31, 2008, a mid-term report (in each case integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph 13), on the progress achieved in the carrying out of the Project during the period preceding the date of said report (or in the case of the last semi-annual report furnished for each calendar year, during the preceding two calendar semesters); 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, promptly following the date thereof, each report referred to in sub-paragraph (b) of this paragraph 13, and, thereafter, take, and cause to be taken, 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.

Annex to Schedule 4

Terms and Conditions of Financial Arrangements between

Project Provinces and LDUs

For purposes of paragraph 7(a) of Schedule 4, financial arrangements to be entered into between a Project Province and an LDU covering a selected commune or communes, shall include the following, unless otherwise agreed by the Association:

1. The financial arrangements shall consist of a sub-loan and a capital grant, under the following terms and conditions:

(a) the sub-loan shall bear interest at a commercial rate and shall be repaid by the LDU over a period of twenty (20) years without any grace period;

(b) in determining the ratio of sub-loan to capital grant for any particular LDU, the Project Province shall take into consideration the projected costs in the expansion and rehabilitation of the LDU's LV electricity distribution networks and in the management, operation and maintenance thereof, due to topographical constraints, the remoteness of communes and the number of poor households under its coverage;

(c) the sum of the sub-loan and the capital grant shall be equal to the amount on-lent by the Borrower to the Project Province in respect of the rehabilitation and expansion of the LV electricity distribution network under Part A of the Project and transferred by the Project Province to said LDU; and

(d) the ratio of sub-loan to capital grant for any particular LDU shall be such that the notional interest rate over an amount equivalent to the sum of such sub-loan and capital grant shall be no less than one percent (1%) per annum.

2. Each Project Province shall, by written contract, or other appropriate legal means, with each LDU to which said Province has transferred an LV electricity distribution network rehabilitated and/or expanded under Part A of the Project, obtain rights adequate to protect the interests of said Province, the Borrower and the Association, including the right to require that said LDU undertake to:

(a) manage, operate and maintain said network and conduct all its operations in accordance with sound management, financial, engineering and public utility practices, and environmental and social standards acceptable to the Project Province, the Borrower and the Association;

(b) maintain adequate records and accounts in respect of said network and all its operations;

(c) enable the Project Province, the Borrower and the Association to inspect said network and its operations, and any records, accounts and documents related thereto; and

(d) provide all such information as the Project Province, the Borrower or the Association may reasonably request regarding said network and its operations.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means: (i) Categories (1)(a) and (2)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Part A of the Project; (ii) Categories (1)(b) and (2)(b) set forth in said table in respect of Part B of the Project; (iii Categories (1)(c) and (2)(c) set forth in said table in respect of Part C of the Project; (iv) Categories (1)(d) and (2)(d) set forth in said table in respect of Part D of the Project; and (v) Category (3) set forth in said table in respect of Part E of the Project; .

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods, works 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 Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means:

(i) in respect of the DAF Special Account for Part A of the Project, an amount equivalent to $10,000,000 to be withdrawn from the Credit Account and deposited into the DAF Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $5,000,000 in respect of the DAF Special Account until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(a) and (2)(a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part A of the Project shall be equal to or exceed SDR35,000,000;

(ii) in respect of the PC1 Special Account for Part B of the Project, an amount equivalent to $2,000,000 to be withdrawn from the Credit Account and deposited into the PC1 Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $1,000,000 in respect of the PC1 Special Account until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(b) and (2)(b) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions

for Part B of the Project shall be equal to or exceed SDR8,000,000;

(iii) in respect of the PC2 Special Account for Part C of the Project, an amount equivalent to $800,000 to be withdrawn from the Credit Account and deposited into the PC2 Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $400,000 in respect of the PC2 Special Account until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(c) and (2)(c) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part C of the Project shall be equal to or exceed SDR2,000,000;

(iv) in respect of the PC3 Special Account for Part D of the Project, an amount equivalent to $1,000,000 to be withdrawn from the Credit Account and deposited into the PC3 Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $500,000 in respect of the PC3 Special Account until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1)(d) and (2)(d) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Part D of the Project shall be equal to or exceed SDR3,000,000; and

(v) in respect of the MOI Special Account for Part E of the Project, an amount equivalent to $100,000 to be withdrawn from the Credit Account and deposited into the MOI Special Account pursuant to paragraph 3(a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective 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 respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Association requests for deposits into the respective 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 respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the 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 any 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 Accounts;

(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 Categories for the respective Special Account, 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: Part A of the Project in connection with the DAF Special Account; Part B of the Project in connection with the PC1 Special Account; Part C of the Project in connection with the PC2 Special Account; Part D of the Project in connection with the PC3 Special Account; and Part E of the Project in connection with the MOI Special Account; shall equal the equivalent of twice the amount of the Authorized Allocation for the respective Special Account.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for the relevant Parts of the Project 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 respective 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 any 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 respective 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 any 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 any 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 Accounts.

(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.