ADDENDUM No.1 TO THE FINANCING AGREEMENT

Moldelectrica Power Transmission Network Rehabilitation Project

ENPI/2012/308751

Special Conditions

The European Union, hereinafter referred to as "**the EU**", represented by the European Union, hereinafter referred to as "**the Commission**",

of the one part, and

The Government of the Republic of Moldova, represented by the Ministry of Economy, hereinafter referred to as "**the Beneficiary**",

of the other part,

have agreed as follows:

The following provisions of the Financing Agreement No.ENPI/2012/308-751 signed on 17 December 2012 and which entered into force on 10 April 2013 for the implementation of the programme "Moldelectrica Power Transmission Network Rehabilitation Project" are hereby modified:

Article 5 – PERIOD OF EXECUTION

Article 5 of the Special Conditions is hereby replaced as follows:

5.1 The period of execution of the Financing Agreement as defined in Article 4 of the General Conditions shall commence on the entry into force of the Financing Agreement and end 90 months after this date.

5.2 The duration of the operational implementation phase is fixed at 66 months.

5.3 The duration of the closure phase is fixed at 24 months.

Article 8 - ANNEXES

Annex II: Technical and Administrative Provisions is replaced and attached to this Addendum.

All other terms and conditions of the Financing Agreement remain unchanged. This addendum shall form an integral part of the Financing Agreement and shall enter into force on the date on which it is signed by the last party.

Done in four original copies, two copies being handed to the Commission and two to the Beneficiary.

FOR THE COMMISSION

Mr Lawrence MEREDITH

Director Neighbourhood East
DG Neighbourhood and Enlargement Negotiations
European Commission

Signature:

Date:

18 SEP. 2017

FOR THE BENEFICIARY

Mr. Pavel FILIP

Prime Minister
of the
Republic of Moldova

Signature:

Date:

09.OCT.2017

TECHNICAL AND ADMINISTRATIVE PROVISIONS

BENEFICIARY COUNTRY / REGION	Republic of Moldova		
REQUESTING AUTHORITY	Government of the Republic of Moldova		
BUDGET HEADING	19.080103		
TITLE	**Neighbourhood Investment Facility contribution to the "Moldelectrica Power Transmission Network Rehabilitation"**		
TOTAL COST	EUR 39,300,000 of which EUR 8,000,000 financed through the NIF contribution to the project		
AID METHOD/ MANAGEMENT MODE	Project mode **Decentralised management**		
DAC-CODE	23040	**SECTOR**	Electricity Transmission/Distribution

1. BACKGROUND

The Neighbourhood Investment Facility (NIF) is a facility stemming from the financing options offered by the ENPI Regulation. It is intended to provide EU grant support for lending operations led by European multilateral development-finance institutions and also bilateral development finance institutions of the Member States. The NIF approves grants for investment co-financing, loan guarantee cost financing, interest rate subsidies, risk capital operations and technical assistance packages. The objective is to associate EU grants with loans from consortia of European Finance Institutions in order to finance large investment projects in the ENPI region.

A NIF contribution of EUR 8,000,000 in the form of technical assistance and investment grant to the "Moldelectrica Power Transmission Network Rehabilitation" was approved by the Board of the NIF during its operational meeting of 16th of March 2012.

The new proposed Project aims at the rehabilitation of the existing internal power transmission network of Moldelectrica (also called "Project Entity"), the state-owned Moldovan transmission system operator. It will strengthen regional interconnections and develop regional electricity trade.

2. DESCRIPTION

2.1 Objective

The general objective of the project is to reinforce regional interconnections and develop regional electricity trade, helping the integration of the Republic of Moldova to the European Network of Transmission System Operators for Electricity (ENTSO-E).

The specific purpose of the Project is to upgrade the existing transmission network and decrease the level of energy losses.

2.2 Expected results

The NIF contribution will assist:

(i) to rehabilitate the power transmission system of the country in preparation for ENTSO E accession,
(ii) to decrease the level of technical losses in the grid (with resultant decreases in emissions from fossil fuel fired generation).

The project will decrease losses by approximately 20% in the substations rehabilitated in the framework of the project.

The rehabilitation of the network will result in improved security of the transmission network and energy efficiency.

Key environmental benefits can also be drawn from the investment as old transformers, which utilise toxic oil (PCB), will be replaced by new equipment which uses non-toxic oil.

Furthermore, increasing the reliability of the network is expected to diminish the number of customers disconnecting from the transmission network and decrease the reliance on environmentally harmful fuels to generate electricity. .

2.3 Activities

I. Works (NIF contribution EUR 6,000,000)

The Project will envisage the rehabilitation of the existing network. It includes the design and rehabilitation of the following substations and transmission lines:

(i) The reconstruction of one 400/110 kV substation;
(ii) The reconstruction of two 110/10 kV substations;
(iii) The reconstruction of three 110 kV transmission lines (1x10 km, 1x1 km, 1x20 km);
(iv) The supply and installation of one 330/110/10 kV, seven 110/35/10 kV and three 110/10 kV transformers;
(v) The installation of cells and switches in several substations.

IV. Technical assistance (NIF contribution EUR 2, 000,000)

Technical assistance (TA) of EUR 2,000,000 has been requested for project implementation support to the Project Implementation Unit (PIU). Technical Assistance will assist the Project Implementation Unit with carrying out procurement procedures as well as with project implementation and compliance with the EIB's and EBRD's loan requirements.

This TA will be supervised by EBRD and contracted by the State owned company Moldelectrica.

The TA component will provide:

- **Institutional strengthening of the State owned company Moldelectrica ("Moldelectrica"):**
  - Providing Moldelectrica with technical, environmental and contractual expertise;
  - Assistance in the implementation of the Project by strengthening Moldelectrica's project management and monitoring capacities.

- **Policy dialogue with the authorities on energy sector and reform:**
  - Launching of a discussion on the introduction and implementation of a modern and appropriate power transmission tariff methodology.

3. LOCATION AND DURATION

3.1 Location

Republic of Moldova

3.2 Duration

The execution period of the Financing Agreement will be up to 90 months. This execution period will comprise two phases under the conditions provided for in article 4.1 of the General Conditions (Annex I of the present Agreement).

The operational implementation phase that starts from the entry into force of the financing agreement and will have a duration of up to 66 months. During that phase, all Project activities will be carried out, including those related to the preparation and planning of the Project implementation, in so far as the latter have not been carried out before the starting date of the execution period.

Pursuant to article 9 of the General Conditions (Annex I of the present Agreement) the contracts implementing the financing agreement shall be signed at the latest within three years of the entry into force of the financing agreement (except audit and evaluation contracts). That deadline may not be extended ('sunset clause').

However, as this is a multi-donor and jointly co-financed Project without specific earmarking of NIF funds, a notional approach will be followed for the NIF contribution for the works component of the project (EUR 6,000 000) implying that the first contracts signed for this Project within the first three years of implementation can be considered as financed from the NIF contribution.

4. IMPLEMENTATION

4.1 Organisational set-up and responsibilities

a) Basic organisational set-up

The executing agency responsible for the implementation of the Project on behalf of the Government of Moldova is the State owned company Moldelectrica ("Moldelectrica"), under the general supervision of the Ministry of Economy. Moldelectrica will establish a Project Implementation Unit ("PIU") to assist with procurement, Project implementation, and compliance with the loan requirements. The PIU will be supported by qualified consultants financed out of the TA component.

The PIU assisted by the consultant will be responsible for (i) Project preparation phase including operating procedures and the entire procurement process of the contracts included under the Project, (ii) Project implementation phase to cover required site supervision, monitoring and reporting including commissioning and operation acceptance of the works, and (iii) Project completion to include the preparation of a Project completion report.

b) Delegation of tasks

The Commission has delegated the following to the European Bank for Reconstruction and Development (EBRD), with its headquarters located One Exchange Square, London EC2A 2JN, United Kingdom:

1. the ex-ante control of the procurement and contracting procedures as described in point 4.3.2,

2. the 'non-objection' of the execution of the payments from the NIF - Moldelectrica Power Transmission Network Rehabilitation Project Account to contractors,

3. the overall technical and financial follow-up of the Project including the 'non-objection' to the Project's interim and final reports (technical and financial),

4. the 'non-objection' to the external audits as defined in article 5.3 (b).

An Implementation Agreement will be signed between the Commission, the EBRD and the EIB in order to detail the tasks delegated to the EBRD. A copy of this agreement will be transmitted to the Beneficiary for information.

The Commission reserves the right to change the delegated body indicated above or the scope of the delegation, without this necessarily requiring an amendment to the financing agreement. In that case, it shall notify the name of the new delegated body and/or the scope of the task(s) delegated to it.

c) Reporting

Moldelectrica shall submit for information to the Commission a copy of all monitoring reports elaborated in accordance with the templates agreed with the EBRD and approved by the EBRD and the EIB, until completion of the entire Project.

In addition, the Commission reserves the right to request the Beneficiary or the Project Entity to submit specific reports.

4.2 Project Budget

The total cost of the Project is estimated at EUR 39,300,000 of which EUR 6,000,000 will be financed by the General Budget of the European Union through the NIF and EUR 2 million from the NIF Trust Fund. Remaining financing will be provided by loans from the EBRD and the EIB (EUR 17,000,000 each), respectively signed by the EBRD on 22 May 2012 and the EIB on 26 June 2012.

The indicative breakdown of all the different components of the Project is as follows:

	EU budget	**NIF Trust Fund**	**EBRD**	**EIB**	**TOTAL**
WORKS					
substations transmission lines (+contingencies)					
Total works	6		13.8	16.5	36. 3
TA					
		2	0.5	0.5	3
					39.3

Should the total cost of the components financed by the NIF increase for whatever reason, the Beneficiary shall ensure that the additional financial resources necessary for the completion of the NIF Project components are available.

The EBRD Loan is for USD 20,000,000 (approximately EUR 14,300,000). Of this amount, USD 19,300,000 will be used for investments and USD 700,000 will be used for technical assistance.

4.3 Mobilisation of the Project Budget for the NIF Contribution

4.3.1 Degree of decentralisation

The project will be implemented according to the partially decentralised mode, with delegation of tasks of ex ante and ex post control to the EBRD.

4.3.2 Procurement procedures

According to article 10.1.1 of the Special Conditions of the present financing agreement, all contracts implementing the Project will be concluded by Moldelectrica in accordance with the Procurement Policies and Rules of the EBRD ("PPRs"), which are in compliance with internationally accepted standards.

The EBRD shall monitor and review the procurement process in accordance with the PPRs, to the extent provided for therein, and as carried out in respect of procurement of goods, services and/or works financed with EBRD's own resources.

Once the evaluation stage of the procurement process is completed for the contracts under the Project, Moldelectrica shall submit tender evaluation reports containing the results of the tender evaluation and the recommendation for the award of the contract to the EBRD. Subject to the review of such report and as a final step in establishing the eligibility of the contract for EBRD financing, the EBRD shall grant to Moldelectrica its "non-objection" to the award of the contracts.

4.3.3 Financial Modalities

The NIF EUR 6 million grant for the works component shall as disbursed as follows:

a. Initial payment from the European Commission

The Commission shall disburse the total NIF grant amount (EUR 6,000,000) to an account in EUR expressly opened in the name of the Ministry of Economy for the purpose of the NIF contribution to the Project (hereafter referred to as the "NIF - Moldelectrica Power Transmission Network Rehabilitation Account"). The NIF- Moldelectrica Power Transmission Network Rehabilitation Account shall be a designated non-interest-bearing account located within the Treasury of the Republic of Moldova. All fees for banking services of this account, including the charges on currency exchange, will be paid by the Ministry of Finance. This account shall be a double signature account and its management shall not be delegated to any other entity.

The said payment shall be executed only once:

1. The present financing agreement is validly signed;
2. The loan agreements with the EBRD and the EIB are validly signed;
3. The Commission has received a payment request from the Ministry of Economy.

Transfers from the NIF - Moldelectrica Power Transmission Network Rehabilitation Account can be done by the Beneficiary only after the written approval of the Head of the EU Delegation to the Republic of Moldova (the "**EU Delegation**"), as per the modalities described in point 4.3.3 (b) hereunder.

b. Transfers from the NIF- Moldelectrica Power Transmission Network Rehabilitation Account to the NIF Project Account

The funds of the NIF- Moldelectrica Power Transmission Network Rehabilitation Account shall be transferred in several successive tranches, after written approval of the Head of the EU Delegation, to a distinct EUR account to be opened and maintained by Moldelectrica, located within a Moldovan commercial bank[1] and expressly created for the purpose of the Project for the financing of the share of the NIF component related to the project (hereafter referred to as the "NIF Moldelectrica Power Transmission Network Rehabilitation Project Account" or "NIF Project Account"). The NIF Project Account" shall be a double signature account of representatives of the Ministry of Economy. The NIF Project Account will hold the NIF funds only. Funds from the EIB shall be held in a separate account (the "EIB Project Account").

The interests potentially generated on the NIF Project Account by the pre-financing will be used for the financing of the activities foreseen in the framework of the project after written approval of the European Commission or reimbursed to the European Commission at time of the closure, proportionally to the NIF contribution to the project.

The approval process for transferring each tranche from the NIF- Moldelectrica Power Transmission Network Rehabilitation Account to the NIF Project Account will be as follows:

(i) the first instalment of maximum of EUR 3,000,000 shall be paid by the Beneficiary to the NIF Project Account within 15 (fifteen) days of receipt by the Beneficiary of a letter from the EU Delegation authorising such transfer. Such letter should be issued not later than 15 (fifteen) days of receipt of the payment request from the EBRD., as described in Section 4.3.3(b)(iii)[2]. The authorisation of the EU Delegation to transfer the first instalment is conditional upon the due execution and effectiveness of the Implementation Agreement between the Commission, the EBRD and the EIB.

(ii) The second instalment of EUR 3,000,000 shall be paid within 15 (fifteen) days of receipt by the Beneficiary of a letter from the EU Delegation authorising such transfer. Such letter should be issued not later than 15 (fifteen) days of receipt of the payment request from the EBRD, as described in Section 4.3.3(b)(iii)[3]. The EU Delegation shall base its authorisation on the 'non-objection' received from the EBRD on the financial statement of the NIF Project Account provided by Moldelectrica indicating that at least 80% of the amount of the first instalment has been utilised by Moldelectrica for the purposes of the NIF Component implementation. The financial statement submitted by Moldelectrica to the EBRD pursuant to this provision shall be certified as accurate and true by the independent external auditors engaged by the Beneficiary pursuant to Section 5.3 (b) of this Agreement.

(iii) Payment requests for each instalment shall be sent by Moldelectrica to the EBRD, which shall transmit a copy of them within 30 (thirty) days to the EU Delegation together with the appropriate documents.

[1] Subject to prior no-objection from the European Commission.
[2] Absence of reply within the set deadline shall not be considered as a tacit approval.
[3] Idem

c. Payments from the NIF Project Account to contractors

Payments to contractors engaged by Moldelectrica, in accordance with the provisions of Section 4.3.2 of this Agreement for the works component of this Project shall be made on a *pari passu* basis from the resources made available by the EBRD, the EIB and the Commission pursuant to their respective financing agreement.

Therefore all invoices related to capital expenditure for works contracts will be paid from three different sources. 41.060925% of each invoice will be paid directly by the EBRD, 41.060925% by the EIB and 17.87815% will be paid by Moldelectrica from the NIF Project Account. All the invoices related to the audits referred to in Article 5.3 (b) of this Agreement will be paid entirely from the NIF Project Account.

Each payment from this account must receive a prior no-objection of the EBRD.

Closure of the NIF Moldelectrica Power Transmission Network Rehabilitation Project Account

At the physical completion of the Project, the Ministry of Economy will procure and contract an audit of the NIF Project Account, the EIB Project Account and of the NIF- Moldelectrica Power Transmission Network Rehabilitation Account in accordance with section 5.3 (b) of this Agreement.

Based on this audit, the EBRD will communicate to the Ministry of Economy, the Ministry of Finance of the Republic of Moldova, the EIB and the Commission, the amount of the Project's final eligible cost. The EBRD shall certify that the Project is completed as planned and transmit to the Commission and the EIB a copy of the project completion report with its non-objection.

The balance (if any) of the NIF Project Account and any ineligible expenditure identified by the audit will be reimbursed by the Ministry of Economy to the Commission (through the NIF Moldelectrica Power Transmission Network Rehabilitation Account).

The NIF Project Account can then be closed.

Closure of the NIF- Moldelectrica Power Transmission Network Rehabilitation Account

The balance on the NIF- Moldelectrica Power Transmission Network Rehabilitation Account will be reimbursed to the Commission by the Ministry of Economy. The NIF- Moldelectrica Power Transmission Network Rehabilitation Account will then be closed.

If the Project is not successfully completed or the EBRD and/or the EIB's loans are not utilised or are cancelled or any other condition of the present agreement is not respected, the Commission reserves the right to re-examine if the NIF grant shall be fully or partially cancelled and therefore reimbursed to the Commission.

In case the funds are not reimbursed when requested, the Commission may apply the adversarial clearance-of-accounts procedure and financial correction mechanisms, in particular as regards recovery by means of offsetting.

The EUR 2,000,000 grant will be made available directly to the EBRD from the NIF Trust Fund. The EBRD will make payments directly to the contractors.

5. MONITORING, EVALUATION AND AUDITS

The follow-up, the evaluation and the audit of the project shall be done according to the procedures and under the monitoring (control) of the EBRD.

The Implementation Agreement to be signed between the EC, the EBRD and the EIB shall include provisions on this delegation of tasks of control, also according to the Project Agreement between State owned company Moldelectrica and the EBRD.

However, the Commission also reserves the right throughout the whole project to carry out monitoring, audit and evaluation missions at its own initiative and on its own budget.

5.1 Monitoring

(a) Day-to-day technical and financial monitoring will be a continuous process as part of Moldelectrica responsibilities. To this aim, Moldelectrica shall establish a permanent internal, technical and financial, monitoring system to the Project, which will be used to elaborate the progress reports.

(b) The EBRD organises bi-annual monitoring "missions" and shall inform the EIB and the Commission in advance of these missions in case they wish to participate. The EBRD shall share all its monitoring reports with the EIB and the Commission.

(c) In addition, independent consultants recruited directly by the Commission on specifically established terms of reference may carry out external monitoring based on the results-oriented monitoring ("ROM") system, which in principle will start from the sixth month of Project activities, and will be finalised at the latest six (6) months before the end of the operational implementation phase.

5.2 Evaluation

(a) The EBRD along with the EIB will monitor project implementation on a regular basis.

(b) The evaluation will be delegated to the EBRD according to its procedures, which foresee a bi-annual monitoring of the Beneficiary until the EBRD loan has been repaid.

(c) In addition, independent consultants recruited directly by the Commission on specifically established terms of reference may also carry out external evaluations (particularly in the framework of the global evaluation of the NIF).

5.3 Audit and Internal Control

(a) Moldelectrica will ensure internal control of management operations.

(b) Moldelectrica will ensure that the financial records are audited by independent auditors in line with the requirements specified in Section 3.01 of the Project Agreement between Moldelectrica and the EBRD for the Moldelectrica Power Transmission Network Rehabilitation Project. The annual audit shall include the audit of the NIF-Moldelectrica Power Transmission Network Rehabilitation Account, the Moldelectrica Power Transmission Network Rehabilitation the NIF Project Account (NIF account) and the EIB account. The EBRD shall provide a copy of the audit reports to the Commission and to the EIB.

(c) In addition, the Commission may also carry out external audits.

5.4 Information and consultation

(a) The Beneficiary, the State owned company Moldelectrica ("Moldelectrica"), the EBRD, the EIB and the Commission shall analyse the conclusions and recommendations of the evaluations and jointly decide on the follow-up action to be taken and any adjustments necessary, including, if indicated, the reorientation of the Project. The reports of the evaluation and monitoring missions of the Commission will be given to the Beneficiary and Moldelectrica, in order to take into account any recommendations that may result from such missions.

(b) The Commission shall inform the Beneficiary at least one (1) month in advance of the dates foreseen for its missions. The Beneficiary shall collaborate efficiently and effectively with the monitoring and/or evaluation experts, and *inter alia* provide them with all necessary information and documentation, as well as access to the Project premises and activities for all Project components.

6. COMMUNICATION AND VISIBILITY

The Beneficiary and Moldelectrica shall ensure that the visibility of the European Union contribution is at least equivalent to that given through media to other donors supporting the implementation of the "Moldelectrica Power Transmission Network Rehabilitation" project (e.g. the European logo shall be displayed whenever a public notice regarding the investments financed under this Project is displayed).Guidelines applicable to communication and visibility can be found on the website of EuropeAid[4].

In case a launching ceremony of the Project would be organised by the Beneficiary, the Commission, the EBRD and the EIB shall be invited.

The Commission as well as the other contributors to the Project shall be invited to any visibility event relating to the Project.

Any substation rehabilitated in the framework of the project should be clearly identified, and visibly carry the EU flag/logo and the phrase "*Provided with the support of the EU*" in the operational language of the EU programme and in the local language. The company logos of the contractor, the implementing partner and other donors may appear on the substation, although the EU flag should be displayed at least as prominently as the logos of all parties involved in the action.

[4] http://ec.europa.eu/europeaid/work/visibility/index_en.htm