

**Terms of Reference \_ IVA \_ Annex 1**



|  |   |   |  |   |  |
|--|---|---|--|---|--|
| <b>Conditions for Negotiation</b>  | <ol style="list-style-type: none"> <li>1. COM prepares and discloses a <b>policy statement that outlines the GoL's vision for reforming the sector</b> and the underlying principles, objectives, timeline, and roadmap for regulator establishment, adopted to implement this vision.</li> <li>2. COM adopts an <b>electricity tariff trajectory</b> towards cost recovery, in a manner that (i) reduces subsidies for the large consumers and (ii) protects poor and vulnerable consumers, through subsidized lifeline block and/or targeted cash transfer to cover for the cost of basic electricity services</li> </ol>   |   |  |   |  |
| <b>Conditions to Board</b>   | <ol style="list-style-type: none"> <li>3. MEW approves EDL's <b>Action Plan to improve commercial and collection performance</b> with targets and timeline, through enhanced distribution management, by incorporating to DSP contracts the recommendations of the World Bank's technical assessment [1]</li> <li>4. A consultant has been recruited to design a cash flow waterfall system to govern EDL payment priorities from collected revenues</li> </ol>   |   |  |   |  |
| <b>Conditions for Effectiveness</b>  | <ol style="list-style-type: none"> <li>5. A <b>Gas Purchase Agreement has been signed</b> with Egypt to supply gas through the Arab Gas Pipeline to Deir Amar power plant</li> <li>6. EDL has set up adequate <b>O&amp;M arrangements</b> for Deir Amar power plant</li> <li>7. <b>EDL has recruited an auditor</b>, for (i) the audits of its financial statements for the year ended 2020, 2021 and 2022 and (ii) and "agreed upon procedures" for the development of fixed assets registry and asset valuation; as well as substantiation of commitment and contingent liability, based on terms of reference satisfactory to the Bank.</li> <li>8. BDL has established a mechanism for <b>EDL to systematically access USD from collected revenues</b></li> <li>9. A <b>Project Management Team</b> has been established at MoEW</li> </ol> |   |  |   |  |
| <b>PBC</b>   | <b>Indicative Timeline</b>  |   |  |   | <b>Expected Outcomes</b>   |
|  | <b>T0</b>   | <b>T0 + 6 months</b>  | <b>T0 + 12 months</b>  | <b>T0 + 18 months</b>   |  |
| <b>IBRD disbursements [US\$; % of purchase]</b>                                  | <b>97,200,000 [100]%</b>  | <b>92,340,000 [95]%</b>   | <b>48,600,000 [50]%</b>  | <b>31,860,000 [33]%</b>   |  |
| <b>Sub-PBC #1:</b><br>Transparency increased and payment predictability enhanced | 1.1 EDL, BDL and MOF have established a <b>cash flow waterfall system</b> to govern payments priorities from collected revenues   | 1.2 Payments to sector stakeholders are made according to the cash flow waterfall system  | 1.4 Payments to sector stakeholders are made according to the cash flow waterfall system   | 1.6 Payments to sector stakeholders are made according to the cash flow waterfall system  | <i>Payments to sector stakeholders are made according to the cash flow waterfall system</i>  |
|  |   | 1.3 EDL discloses its <b>audited financial statements for year 2020</b>   | 1.5 EDL discloses (i) its <b>audited financial statements for year 2021</b> and (ii) agreed upon procedures report (by an auditor) for development of fixed assets registry and asset valuation – opening balances to be approved by BoD | 1.7 EDL discloses findings and report of "agreed upon procedures" (by an auditor) for substantiation of commitment and contingent liability- opening balances to be approved by BoD | <i>EDL discloses the audit report of its financial statements for year 2022</i>  |
| <b>Sub-PBC #2:</b> EDL's revenues increased                                      | 2.1 EDL and MEW execute the actions listed in the approved Action Plan (Condition #3) by T0   | 2.3 EDL and MEW execute the actions listed in the approved Action Plan by T0 + 6 months   | 2.5 EDL and MEW execute the actions listed in the approved Action Plan by T0 + 12 months   | 2.7 EDL and MEW execute the actions listed in the approved Action Plan by T0 + 18 months  | <i>Tariff revenues for 2023 covers at least [xx]% of EDL operating costs.</i>  |
|  | 2.2 Tariff adjustment applied with effect not more than 2 months from the date of gas flow to DAPP, with <b>indexation for fuel price and FX</b>  | 2.4 Electricity retail tariff adjustment has been applied including indexation for fuel price and foreign exchange, as per the approved tariff trajectory                       | 2.6 Electricity retail tariff adjustment has been applied including indexation for fuel price and foreign exchange, as per the approved tariff trajectory  | 2.8 Electricity retail tariff adjustment has been applied including indexation for fuel price and foreign exchange, as per the approved tariff trajectory                           |  |
| <b>Sub-PBC #3:</b> Sector Regulatory Framework Established                       | 3.1 MEW has launched the <b>recruitment process for the Electricity Regulator Authority (ERA) commissioners</b> , as per Law 462.   | 3.2 COM has adopted a time-bound plan to fully operationalize the Sector Regulatory Framework by no more than 18 months, including (i) preparation of secondary legislation and | 3.3 <b>ERA has been established</b> and commissioners are appointed through a transparent process, based on their expertise, qualifications, and no conflicts of interest, as per Law 462  | 3.4 <b>ERA has set up its internal organization</b> with statutes, budget and staff recruited, as per Law 462   | <i>ERA is fully functioning with internal procedures established on key regulatory issues (incl. tariff methodology, licenses and public consultations).</i> |



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|   |   | regulations, and (ii) interim arrangements for sector oversight until ERA is fully functioning |                         |                         |                          |

