

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF 028484 CHA

Global Environment Facility
Trust Fund Grant Agreement

(Efficient Industrial Boilers Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated February 14, 1997

GEF TRUST FUND GRANT NUMBER TF 028484 CHA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated February 14, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) acting as an implementing agency of the Global Environment Facility (GEF) in respect of grant funds provided to the Global Environment Facility Trust Fund (GEF Trust Fund) by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) following the restructuring of the GEF, such arrangements are continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank establishing the GEF Trust Fund; and

(C) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the GEF Trust Fund in the financing of the Project, and the Bank has determined that such assistance would be in accordance with the provisions of Resolution No. 94-2 referred to above;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the General Conditions Applicable to Loan and Guarantee Agreements of the Bank, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Section 4.01 and the first sentence of Section 4.09;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (c), (e), (f), (i) and (k), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
 - (ix) Sections 10.01, 10.03 and 10.04;
 - (x) Article XI.
- (b) The General Conditions shall be modified as follows:
- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
 - (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term "Bank" shall also include the Bank acting in its own capacity;
 - (iii) the term "Borrower", wherever used in the General Conditions, means the Recipient;
 - (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
 - (v) the term "Loan" and "loan", wherever used in the General Conditions, means the GEF Trust Fund Grant;
 - (vi) the term "Loan Account", wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
 - (vii) The second sentence of Section 5.01 is modified to read: "Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.";
 - (viii) a new subparagraph is added after subparagraph (j) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF."; and

(ix) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account shall have been suspended with respect to any amount of the GEF Trust Fund Grant for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Recipient, that an amount of the GEF Trust Fund Grant will not be required to finance the Project's costs to be financed out of the proceeds of the GEF Trust Fund Grant, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the GEF Trust Fund Grant, that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the GEF Trust Fund Grant during the procurement or the execution of such contract, without the Recipient having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the GEF Trust Fund Grant, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the GEF Trust Fund Grant is inconsistent with the procedures set forth or referred to in the GEF Trust Fund Grant Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the GEF Trust Fund Grant, or (e) after the Closing Date, an amount of the GEF Trust Fund Grant shall remain unwithdrawn from the GEF Trust Fund Grant Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the GEF Trust Fund Grant, the Bank may, by notice to the Recipient and the Guarantor, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the GEF Trust Fund Grant shall be cancelled."

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

(a) "Participating Enterprise" means a company to which the Recipient proposes to make or has made a Sub-grant;

(b) "Boiler Subproject" means a specific development project to be carried out by a Participating Enterprise under Part A of the Project and financed in part from the proceeds of a Sub-grant, in accordance with Schedule 4 to this Agreement;

(c) "Boiler Subproject Implementation Agreement" means, in respect of each Boiler Subproject, the agreement referred to in Part F of Schedule 4 to this Agreement, to be entered into between MMI on behalf of the Recipient and the Participating Enterprise which proposes to carry out said Boiler Subproject, as said agreement may be amended from time to time;

(d) "MMI" means the Recipient's Ministry of Machinery Industry, and any successor thereto;

(e) "PMO" means the project management office in MMI set up for the management of the Project as provided to in Part A.1 of Schedule 4 to this Agreement;

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

(g) "Sub-grant" means any grant made, or proposed to be made, by the Recipient, out of the proceeds of the GEF Trust Fund Grant, to a Participating Enterprise for a Boiler Subproject.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount in various currencies equivalent to twenty two million eight hundred

thousand Special Drawing Rights (SDR 22,800,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of (i) Sub-grants under Part A of the Project and (ii) the reasonable cost of goods and services required for carrying out Parts B and C of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

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

Section 2.03. The Closing Date shall be June 30, 2001 or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project through MMI with due diligence and efficiency and in conformity with appropriate boiler manufacturing, financial, administrative, energy efficiency and licensing practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Recipient responsible for carrying out the Project or any part thereof.

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal

year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of statements of expenditure, the Recipient shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Bank's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Effectiveness, Termination

Section 5.01. This Agreement shall become effective upon its execution by the parties.

Section 5.02. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Sanlihe
Beijing 100820
People's Republic of China

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
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 as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Pan Xiaojiang

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By /s/ Nicholas C. Hope

Authorized Representative
East Asia and Pacific Region

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

Category	Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subgrants under Part A of the Project	18,220,000	100% of amounts disbursed
(2) Consultants' services:		
(a) Under Part B of the Project	900,000	100%
(b) Under Part C of the Project	740,000	100%
(3) Goods under Part C of the Project	180,000	100% of foreign

expenditures,
100% of local
expenditures (ex-
factory cost) and
75% of local
expenditures for
other items
procured locally

(4)	Unallocated	2,760,000
	TOTAL	22,800,000

2. For the purposes of this Schedule 1:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of Recipient for goods or services supplied from the territory of any country other than that of Recipient; and

(b) the term "local expenditures" means expenditures in the currency of Recipient or for goods or services supplied from the territory of Recipient.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) a Sub-grant under Part A of the Project, unless the Boiler Subproject Implementation Agreement providing therefor has been approved by the Bank pursuant to Part E of Schedule 4 to this Agreement; (c) payments under Category 1 for expenditures in connection with Phase 1 of any Boiler Subproject (as described in Part D.1 of Schedule 4 to this Agreement) unless an implementation plan for such Subproject has been found satisfactory by the Bank; and (d) payments under Category 1, for the carrying out of Phase 2 of any Boiler Subproject (as described in Part D.2 of Schedule 4 to this Agreement), unless Phase 1 of said Boiler Subproject (as described in Part D.1 of Schedule 4 to this Agreement) has been completed to the satisfaction of the Bank and the Bank has advised PMO accordingly.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures:

(a) goods under contracts costing less than \$200,000 equivalent each; and

(b) Contracts for the employment of consulting firms costing less than \$100,000 equivalent each and contracts for the employment of individuals costing less than \$50,000 equivalent each;

all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is the reduction of carbon dioxide emissions and other air pollutants through the introduction of more efficient and clean boiler technologies to improve the thermal efficiency of small and medium sized industrial boilers.

The Project consists of the following parts, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time to achieve such objectives.

Part A: Efficient Boilers Subprojects

The carrying out of subprojects for the design and manufacture of highly efficient and clean industrial boilers, including the introduction of new technologies.

Part B: Dissemination of Advanced Boiler Technologies

Dissemination of the clean and high efficiency boiler technologies developed under Part A of the Project through, inter alia:

- (1) the upgrading of boiler operator training and boiler operator certification programs;
- (2) the organization of a nationwide marketing campaign;
- (3) the establishment of a pilot dissemination program in the municipalities of Beijing, Chongqing and Harbin, in collaboration with national-level environment and planning agencies;
- (4) the development and dissemination of a best-practice program and action plan for providing customer service to industrial boiler consumers;
- (5) provision of information, domestic site visits and training for boiler manufacturers other than Participating Enterprises, for disseminating the advanced technologies demonstrated under the Project;
- (6) the development and implementation of revised standards for industrial boilers, including those regarding thermal efficiency, emissions, safety and coal quality;
- (7) the preparation and dissemination of design manuals and software incorporating design improvements resulting from Part A of the Project including, design procedures, the selection and compatibility of auxiliary equipment and accessories, and the demonstration and verification testing of prototypes; and
- (8) the development of (i) improvements in overall boiler house design in line with international standards, and (ii) improved integrated boiler technology.

Part C: Strengthening Project Management

Strengthening of PMO through:

- (1) the development of monitoring and evaluation systems, including the provision of monitoring equipment; and
- (2) the carrying out of training and workshops for PMO staff in marketing, finance and management.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part. A. General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in

January 1995 and revised in January and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B. International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for Domestically Manufactured Goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient .

(b) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Design and manufacturing technology for Part A of the Project, which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods (other than design and manufacturing technology for Part A of the Project) estimated to cost less than \$2,000,000 but more than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$2,690,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Goods (other than design and manufacturing technology for Part A of the Project) estimated to cost less than \$250,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Direct Contracting

Design and manufacturing technology for Part A of the Project that can only be purchased from one supplier, and goods which are of a proprietary nature, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D. Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of

Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Bank review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Bank review shall not apply to: (a) the terms of reference for such contracts; (b) single-source selection of consulting firms; (c) assignments of a critical nature, as reasonably determined by the Bank; (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above; or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Project management and monitoring

1. The Recipient shall implement the Project through MMI and shall ensure that MMI shall establish and maintain throughout the implementation of the Project a Project Management Office (the PMO) staffed by competent staff in adequate numbers to be responsible for overall coordination and supervision of Project execution, the supervision of the procurement of goods and services thereunder, the overall assessment of the quality and impact of the Project and the preparation and furnishing to the Bank of reports and other information thereon.

2. The Recipient shall, through MMI, maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project as well as the achievement of the objectives thereof.

3. The Recipient shall, through MMI, submit semi-annual progress reports, including the disbursement status of each Boiler Subproject, not later than February 15 and August 15 of each year on the progress achieved in the carrying out of the Project during the immediately preceding semester. Said reports shall integrate the results of the monitoring and evaluation activities performed pursuant to paragraph 1 above and set out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof in the then current semester. After furnishing each such report, the Recipient shall review said report with the Bank and promptly take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and

recommendations of said report and taking into account the Bank's views on the matter.

4. The Recipient shall, through MMI:

a) submit to the Bank annually not later than February 15 a report on the financial condition and operation status of each Participating Enterprise, in accordance with parameters agreed with the Bank; and

b) prepare and furnish to the Bank no later than February 28, 1997 a plan for the implementation of the pilot dissemination program in each of participating municipalities.

B. Sub-grants

The Recipient shall ensure that MMI carries out Part A of the Project in accordance with the following procedures:

1. Sub-grants shall be made by the Recipient to Participating Enterprises selected by MMI for the financing of Boiler Subprojects. The proceeds of the Sub-grants shall be used to procure goods (including design and manufacturing technology) and services required for the carrying out of the Boiler Subprojects. At least 25% of the proceeds of any Sub-grant shall be allocated to Phase 2 of the Boiler Subproject concerned, as described in Part D.2 below.

2. Sub-grants shall be denominated in SDRs and payable in Dollars and shall be made available to Participating Enterprises on a non-reimbursable basis.

3. Each Participating Enterprise shall be limited to one Sub-grant, the amount of which shall be available to finance up to 40% of goods and services procured for Boiler Subproject implementation, net of taxes. At least 10% of the total cost of any Boiler Subproject shall be financed by the Participating Enterprise concerned from its own resources.

4. A Participating Enterprise may, on terms and conditions satisfactory to the Recipient and the Bank, enter into arrangements with one or more auxiliary equipment manufacturers to assist the Participating Enterprise in the carrying out of its Boiler Subproject including the procurement of appropriate auxiliary equipment technology.

C. Participating Enterprises

Each Participating Enterprise shall be selected by MMI to implement a Boiler Subproject based on the following criteria:

- (1) its technical capability and management efficiency;
- (2) its financial viability;
- (3) the technical soundness of the proposed Boiler Subproject;
- (4) the technology transfer arrangements of the proposed Boiler Subproject;
- (5) the thermal efficiency and pollution reduction resulting from the proposed Boiler Subproject; and
- (6) cost benefit analysis of the proposed Boiler Subproject.

D. Boiler Subprojects

Each Boiler Subproject shall consist of the design and manufacturing of high efficiency and clean boilers in two phases as follows:

- (1) Phase 1, comprising:
 - (a) the design and production of a demonstration boiler unit;
 - (b) verification of said demonstration unit to test compliance with specific technical and environmental performance criteria and domestic and international safety standards, and
 - (c) the preparation of production, financing and marketing plans for Phase 2.

(2) Phase 2: conversion of the Participating Enterprise's production facilities to bring the demonstration unit into production.

E. Boiler Subproject Approval

No expenditures incurred in connection with the implementation of any Boiler Subproject shall be eligible for financing out of the proceeds of the GEF Trust Fund Grant unless: (i) the Boiler Subproject Implementation Agreement for such Boiler Subproject (as referred to in Part F of this Schedule 4) shall have been approved by Recipient and the Bank; and (ii) the Bank has received evidence satisfactory to it that the Participating Enterprise has no objection to the signing on its behalf of the technology transfer arrangements with respect to such Boiler Subproject.

F. Boiler Subproject Implementation Agreements

Sub-grants shall be made on terms whereby the Recipient shall obtain, by a written agreement with the Participating Enterprise rights adequate to protect the interests of the Bank and the Recipient, including the right to:

(1) require the Participating Enterprise to carry out and operate the Boiler Subproject in accordance with this Agreement and with due diligence, efficiency as well as sound technical, financial and managerial standards, and to maintain adequate records;

(2) require that: (i) the goods and services to be financed out of the proceeds of the GEF Trust Fund Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement, and (ii) such goods and services shall be used exclusively in the carrying out of the Boiler Subproject;

(3) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Boiler Subproject, the operation thereof, and any relevant records and documents;

(4) require that: (i) the Participating Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the GEF Trust Fund Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Participating Enterprise to replace or repair such goods;

(5) obtain all such information as the Bank or the Recipient shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Participating Enterprise and to the benefits to be derived from the Boiler Subproject;

(6) suspend or terminate the right of the Participating Enterprise to the use of the proceeds of the Sub-grant upon failure by such Participating Enterprise to perform its obligations under its Boiler Subproject Implementation Agreement with the Recipient;

(7) require that the locations of the demonstration units be identified and that environmental assessments from appropriate local government agencies be obtained prior to demonstration unit construction;

(8) require that the technical, environmental and safety standards for the verification of the demonstration unit are satisfactory to the Bank; and

(9) require that each Participating Enterprise submit to the Recipient, no later than January 31 in each year, the financial statements for the immediately preceding year for such Enterprise.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 through 3 set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant 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 an amount equivalent to \$2,200,000, to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the GEF Trust Fund Grant Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 7,000,000.

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

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

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

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank 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 Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Bank shall reasonably request, furnish to the Bank 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 Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant 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 Recipient shall have failed to furnish to the Bank, 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 Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

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

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

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

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

