

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF054687-CHA

Global Environment Facility Trust Fund Grant Agreement

(Heat Reform and Building Energy Efficiency 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 May 24, 2005

GEF TRUST FUND GRANT NUMBER TF054687-CHA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 24, 2005, 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 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 continued in place on the basis set forth in Resolution No. 94-2 of May 24, 1994, of the Executive Directors of the Bank which, *inter alia*, established the GEF Trust Fund and appointed the Bank as trustee of the GEF Trust Fund (Resolution 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(D) Part A of the Project will be carried out by Tianjin Municipality, and Part C of the Project will be carried out by the Project Cities, with the Recipient's assistance and, as part of such assistance, the Recipient will make available to Tianjin Municipality and the Project Cities part of the proceeds of the GEF Trust Fund Grant, as provided in this Agreement; and

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 for Single Currency Loans" of the Bank, dated

May 30, 1995 (as amended through May 1, 2004), 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 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (g), (i), (l), (m), (n), (o) and (p), 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; and
 - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) 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;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
 - (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;

- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) a new subparagraph is added after subparagraph (o) 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
- (vii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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) “Displaced Person” means a person who, on account of the execution of the Project, has 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 person 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 person,

and “Displaced Persons” means, collectively, all such Displaced Persons.

(b) “Environmental Safeguards Framework” means the framework, dated December 23, 2004, satisfactory to the Bank, describing procedures, principles, and guidelines for: (i) the mitigation of the potential environmental impact of a Sub-project; (ii) the preparation of an environmental management plan, if required for the Sub-project; and (iii) the preparation of an environmental analysis report for the overall heating system or housing complex which hosts the Sub-project; as the same may be amended from time to time with the prior agreement of the Bank.

(c) “Financial Management Manual” means the manual referred to in paragraph 2 of Schedule 4 to this Agreement.

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement.

(e) “Heat Reform and Building Energy Efficiency Program” or “HRBEE Program” means a program referred to in Parts A and C of the Project, which satisfies the requirements set forth or referred to in paragraph 4 of Schedule 4 to this Agreement.

(f) “Implementation Agreement” means, in respect of Tianjin, the agreement entered into between the Recipient and Tianjin; and in respect of each Project City, the agreement entered into between the Recipient and each Project City, in accordance with the provisions of paragraph 6 of Schedule 4 to this Agreement and the Annex thereto, as the same may be amended from time to time with the approval of the Bank.

(g) “Local Project Management Office” means a project management office established in Tianjin or to be established in a Project City for implementing its Respective Part of the Project, and the term “Local Project Management Offices” means, collectively, the plural thereof.

(h) “MOC” means the Recipient’s Ministry of Construction, and any successor thereto.

(i) “MOF” means the Recipient’s Ministry of Finance, and any successor thereto.

(j) “National Expert Group” means the group referred to in paragraph 1(d) of Schedule 4 to this Agreement.

(k) “National Project Management Office” means the project management office referred to in paragraph 1(c) of Schedule 4 to this Agreement.

(l) “Procurement Plan” means the Recipient’s procurement plan, dated January 3, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation.

(m) “Project Cities” means the cities selected to participate in Part C of the Project in accordance with the provisions of paragraph 5 of Schedule 4 to this Agreement, and the term “Project City” means any of the Project Cities.

(n) “Project Leading Office” means the office referred to in paragraph 1(b) of Schedule 4 to this Agreement.

(o) “Project Steering Committee” means the committee referred to in paragraph 1(a) of Schedule 4 to this Agreement.

(p) “Respective Part of the Project” means in respect of:

(i) the Recipient, Part B of the Project;

(ii) Tianjin, Part A of the Project; and

(iii) Project Cities, Part C of the Project.

(q) “Social Safeguards Framework” means the framework, dated December 23, 2004, satisfactory to the Bank, describing procedures, principles, and guidelines for: (i) the mitigation of the potential adverse social impact under a Sub-project; (ii) the preparation of a resettlement action plan and an ethnic minority development plan, as the case may be, if required for the Sub-project; and (iii) the preparation of a social analysis report for the overall heating system or housing complex which hosts the Sub-project; as the same may be amended from time to time with the prior agreement of the Bank.

(r) “Special Account” means the account referred to in Section 2.02(b) of this Agreement.

(s) “Sub-grant” means a grant made, or proposed to be made, by the Recipient, out of the proceeds of the GEF Trust Fund Grant, to a Sub-grant Beneficiary for the purposes of funding up to thirty percent (30%) of the estimated incremental energy efficiency costs of a Sub-project under Parts A.1 and C.1 of the Project, and the term “Sub-grants” means, collectively, the plural thereof.

(t) “Sub-grant Beneficiary” means a heating company, or a housing development company, or a company engaging in a different business agreed by the Recipient and the Bank, established and operating in Tianjin or in a Project City, selected pursuant to paragraph 5 of Schedule 4 to this Agreement, to carry out a Sub-project, to whom, and for whose benefit, a Sub-grant is made or proposed to be made; the term “Sub-grant Beneficiaries” means, collectively, the plural thereof.

(u) “Sub-project” means a specific investment project selected for financing under Parts A.1 and C.1 of the Project, in accordance with the provisions of paragraph 5 of the Annex of Schedule 4 to this Agreement; the term “Sub-projects” means, collectively, the plural thereof.

(v) “Sub-project Preparation Manual” means the manual referred to in paragraph 5 of the Annex to Schedule 4 of this Agreement, which sets out the criteria, principles, and procedures to be applied in the preparation of the Sub-projects under Parts

A.1 and C.1 of the Project; as the same may be revised from time to time with the prior agreement of the Bank.

(w) “Tianjin” means the Recipient’s Tianjin Municipality, and any successor thereto.

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 equal to eighteen million Dollars (US\$18,000,000).

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: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the GEF Trust Fund Grant; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) on account of a Sub-grant to meet the reasonable cost of goods, works, and services required for a Sub-project and in respect of which withdrawal from the GEF Trust Fund Grant Account is requested.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank acceptable to the 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 December 31, 2011, 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, and, to this end: (i) shall carry out Part B of the Project through MOC; (ii) shall cause Tianjin to carry out Part A of the Project; and (iii) shall cause the Project Cities to carry out Part C of the Project, all with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, energy efficiency, and technical practices and construction, social and environment standards acceptable to the Bank 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, and cause Tianjin and the Project Cities to carry out, the actions specified in the Implementation Program set forth in Schedule 4 to this Agreement in order to ensure proper implementation of the Project.

(c) For purposes of carrying out Parts A and C of the Project, the Recipient shall make available to Tianjin and the Project Cities, on a grant basis and without deduction of any charges, commissions or fees of any kind, the proceeds of the GEF Trust Fund Grant allocated to Categories 1(a), 1(b), 3(a) and 3(c), as set forth in Schedule 1 to this Agreement, and in accordance with proper arrangements satisfactory to the Bank.

Section 3.02. (a) Except as the Recipient shall otherwise agree, procurement of the goods and 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, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update, or cause Tianjin and the Project Cities to update, the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

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 (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a consolidated plan (integrating the information provided in the plans submitted by Tianjin and the Project Cities) for the continued achievement of the objective 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 a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in sub-paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank) audited, in accordance with consistently applied auditing standards, acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year or such other period agreed to by the Bank: (A) certified copies of the financial statements referred to in sub-paragraph (a) of this Section for such year or such other period agreed to by the Bank, as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank shall have reasonably requested.

(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) retain, until at least one year after the Bank has received the audit report for, or covering, 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;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Bank, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the reporting obligations set out in paragraph 8 Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Bank a consolidated financial monitoring report (integrating the information provided in the reports submitted by Tianjin and the Project Cites), in form and substance satisfactory to the Bank, which 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 GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds.

(b) The first such financial monitoring report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar semester 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 semester; thereafter, each financial monitoring report shall be furnished to the Bank not later than forty-five (45) days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02(p) of the General Conditions, the following additional events are specified:

(a) Tianjin or any Project City shall have failed to perform any of its obligations under the Implementation Agreement to which it is a party.

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Tianjin or any Project City will be able to perform its obligations under the Implementation Agreement to which it is a party.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01(c) of the General Conditions, namely that:

(a) The Recipient has adopted and put into effect the Financial Management Manual, acceptable to the Bank.

(b) The Recipient has appointed to the National Project Management Office financial and accounting staff in adequate numbers, with experience, qualifications, technical skills, and terms of reference, satisfactory to the Bank.

(c) The Recipient has adopted a Sub-project Preparation Manual satisfactory to the Bank.

Section 6.02. 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.

Section 6.03. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

Section 6.04. The Recipient agrees that the Bank may make this Agreement and any information related thereto publicly available after the Effective Date.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. 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 7.02 The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

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

Facsimile:
(86-10) 68551125

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)

Facsimile:
(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By: /s/ David Dollar

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an Implementing Agency of the Global Environment Facility

By: /s/ Zhu Guangyao

Authorized Representative

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:

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in United States Dollars – US\$)	% of Expenditures to be Financed
(1) Sub-grants:		100% of Sub-grant amount disbursed
(a) under Part A.1 of the Project	5,000,000	
(b) under Part C.1 of the Project	7,700,000	
(2) Goods under Part B.6 of the Project	45,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 75% of local expenditures for other items procured locally
(3) Consultants' Services		
(a) under Part A.2 of the Project	1,000,000	91%
(b) under Part B of the Project	2,055,000	91%

	<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in United States Dollars – US\$)	% of Expenditures to be Financed
(c)	under Part C.2 of the Project	1,750,000	91%
(4)	Incremental Operating Costs under Part B.6 of the Project	150,000	100%
(5)	Unallocated	<u>300,000</u>	
	TOTAL	<u>18,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient; provided, however, that expenditures in the currency of the Hong Kong Special Administrative Region of the Recipient for goods or services supplied from said region and expenditures in the currency of the Macau Special Administrative Region of the Borrower for goods or services supplied from said region shall be deemed to be “foreign expenditures;”

(b) the term “local expenditures” means any expenditures that are not foreign expenditures; and

(c) the term “incremental operating costs” means the reasonable expenditures incurred by the Recipient and directly related to the Project implementation, monitoring and evaluation, which expenditures would not have been incurred absent the Project, including, the costs of the Project staff travel, office rentals, utilities, and consumable goods, but excluding the Project staff salaries and allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments under Categories (1)(a) and (3)(a) until the Recipient and Tianjin have entered into an Implementation Agreement, satisfactory to the Bank.

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 under contracts for: (a) goods; (b) services of individual consultants costing less than US\$50,000 equivalent per contract; (c) services of consulting firms costing less than US\$100,000 equivalent per

contract; (d) Sub-grants; and (e) incremental operating costs, 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 amount of the GEF Trust Fund Grant was used in a manner inconsistent 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.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to achieve a substantial, sustained and growing increase in energy efficiency in urban residential buildings and central heating systems in China's cold climate regions, through: (i) the improvement of the energy efficiency of residential buildings; (ii) the implementation of reform on heat pricing and billing; and (iii) modernization of heat supply systems for residential buildings.

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 the objective of the Project.

PART A: Heat Reform and Building Energy Efficiency Program in Tianjin

1. Investment Sub-projects

Carrying out the energy efficiency improvement Sub-projects to improve building energy efficiency, building internal heating systems, and heat generation, distribution, and dispatch.

2. Institutional Capacity Building

(a) Undertaking technical studies and analytical work for the implementation of heat reform policies, and implementation of more stringent building energy efficiency standards.

(b) Strengthening the capacity of the local building energy efficiency authority in compliance enforcement and supervision.

(c) Conducting public education programs to: (i) inform housing residents on the benefits of energy efficiency, as well as consumption-based billing, heat metering, and consumer control equipment; and (ii) provide training to housing designers, construction supervisors, and building inspectors on energy efficiency compliance requirements and procedures.

(d) Strengthening the capacity of Tianjin's project management office to monitor and evaluate the technical outcomes, as well as the economic and social impact of the energy efficiency improvement Sub-projects carried out under this Part of the Project.

PART B: National Level Policy Support and Project Management

1. Developing nation-wide heat reform and building energy efficiency policies.
2. Assisting the Project Cities in implementation of policies described in the above paragraph 1 of this Part B.
3. Developing building energy efficiency standards and implementation measures for new and old residential buildings; and national regulations on testing and certification of energy efficient building materials and construction materials.
4. Promoting and disseminating knowledge in heat supply and building energy efficiency technologies.
5. Providing heat reform and building energy efficiency training to housing specialists, real estate developers, vendors and government officials through workshops.
6. Strengthening the capacity of the National Project Management Office in managing the Project, monitoring and evaluating of the progress and impacts of the Project.
7. Assisting the Project Cities in preparation of their Sub-projects and related policy reform proposals.

PART C: Heat Reform and Building Energy Efficiency Program in the Project Cities

1. Carrying out the energy efficiency improvement Sub-projects in the Project Cities to improve building energy efficiency, building internal heating systems, and heat generation, distribution, and dispatch.
2. Undertaking feasibility studies and other technical studies for preparation of the energy efficiency improvement Sub-projects in the Project Cities, and developing local policies on heat reform and building energy efficiency for the Project Cities.

* * *

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

SCHEDULE 3

Procurement and Consultants' Services

Section I. General

1. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.
2. 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.
3. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank 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 and Services (other than Consultants' Services)

1. Commercial Practices. Goods, works, or services required for Sub-projects under Parts A.1 and C.1 of the Project, may be procured in accordance with commercial practices acceptable to the Bank.
2. Shopping. Goods estimated to cost less than US\$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

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 of this Section, 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 US\$300,000 equivalent per contract may comprise entirely national consultants.
2. Other Procedures
 - (a) Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in

accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

(b) Selection Based on Consultants' Qualifications. Services estimated to cost less than US\$200,000 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.

(c) 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 Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

(d) 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 be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for consultants' services provided by a firm estimated to cost the equivalent of US\$100,000 or more; (b) each contract for consultants' services provided by individuals estimated to cost the equivalent of US\$50,000 or more; (c) each contract for consultants services provided by individuals based on a sole-source basis and each contract for consultants services provided by firms on a single-source basis, regardless of the contract value, and (d) the first three contracts under the Sub-projects in Tianjin and each Project City. All other contracts shall be subject to Post Review by the Bank. With respect to each contract not subject to the Bank's prior review, prior to the selection of the consultants, the Recipient shall furnish the terms of reference for said consultants to the Bank for its no-objection.

SCHEDULE 4

Implementation Program

Project Management and Implementation at the National Level

1. The Recipient shall, throughout the implementation of the Project, maintain the following organizations with terms of reference, staffing and resources acceptable to the Bank:

(a) a Project Steering Committee comprising representatives of MOF and MOC, to be responsible for providing policy guidance on the Project issues;

(b) a Project Leading Office to be responsible for the overall coordination of the implementation of the Project among the different agencies involved in the Project;

(c) a National Project Management Office, established by MOC, to be responsible for implementation, monitoring and evaluation of Part B of the Project, and guiding, supervising, coordinating, monitoring, and evaluation of the implementation of Parts A and C of the Project; and

(d) a National Experts Group, comprising experts on heat supply, heat reform, building energy efficiency, environmental management, engineering, building administration, sociology, economics and business management, to be responsible for providing technical advice to the MOC, Tianjin and the Project Cities concerning the Project.

2. The Recipient, through MOC, shall carry out its Respective Part of the Project, and cause Tianjin and each Project City to carry out its Respective Part of the Project, in accordance with the Financial Management Manual, acceptable to the Bank, which shall include reporting requirements and financial management procedures, including audit procedures, in accordance with Article IV of this Agreement. The Recipient shall not assign, amend, abrogate or waive the Financial Management Manual, or any portion thereof, without the prior approval of the Bank.

3. The Recipient shall carry out annual surveys and analysis on energy savings achieved in Tianjin and each Project City; and thereafter furnish a report on the outcome of said annual surveys on energy savings to the Bank no later than June 30 of each calendar year, beginning with June 30, 2006, in a manner satisfactory to the Bank.

The HRBEE Program and the Project Cities

4. The Heat Reform and Building Energy Efficiency Program referred to in Parts A and C of the Project to be carried out by Tianjin and the Project Cities respectively, shall include, among others, the following:

(a) the heat reform and heat system modernization, and building energy efficiency improvements;

(b) a detailed time-bound action plan for the implementation of the program, including heat supply system modernization, heat reform, and building energy efficiency measures;

(c) specific energy efficiency targets and performance indicators; and

(d) application of innovative energy efficiency measures in development of new and large heating systems and major residential housing complex, or renovation of major residential housing complex.

5. For a Project City to participate in Part C of the Project and to be eligible for financing out of the proceeds of the GEF Trust Fund Grant, the following criteria and requirements should be met:

(a) each Project City shall have been designated by the Recipient as a national pilot heat reform city;

(b) each Project City shall have demonstrated their commitment to both the heat reform and building energy efficiency approaches of the HRBEE Program by developing a concrete time-bound action plan to implement both heat reform and building energy efficiency actions;

(c) each Project City shall have the organization, management and resources required for the proper carrying out of its Respective Part of the Project, including its abilities to organize both building energy efficiency and heat system development and reform activities in an integrated manner; and to this end; (i) shall have established a Local Project Management Office, with terms of reference, staffing and other resources acceptable to the Bank, to be responsible for managing its respective part of the Project in its jurisdiction; and (ii) shall have provided training to the staff of its Local Project Management Office in financial management, procurement management; and project monitoring and evaluation; and

(d) each Project city has entered into an Implementation Agreement with the Recipient, satisfactory to the Bank.

Implementation Agreement

6. The Recipient shall enter into an Implementation Agreement with Tianjin and each selected Project City to carry out its Respective Part of the Project on terms and conditions acceptable to the Bank and in accordance with the provisions set forth in the Annex to this Schedule.

7. The Recipient shall:

(a) (i) cause Tianjin and each of the Project cities to perform, in accordance with the provisions of the Implementation Agreement to which Tianjin or each of the Project Cities is a party, all of the obligations of Tianjin and each Project City therein set forth; (ii) take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Tianjin and each of the Project Cities to perform such obligations; and (iii) not take or permit to be taken any action which would prevent or interfere with such performance; and

(b) exercise its rights under each of the Implementation Agreements in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and except as the Bank shall otherwise agree, not assign, amend, abrogate, or waive any of the Implementation Agreements or any provision thereof.

Monitoring and Reporting

8. The Recipient shall:

(a) (i) maintain policies and procedures adequate to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of Part B the Project and the achievement of the objectives thereof; and (ii) ensure that Tianjin and each of the Project Cities shall maintain policies and procedures, adequate to enable each of them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Bank, the carrying out of Parts A and C of the Project and the achievement of the objectives thereof;

(b) prepare, and ensure that Tianjin and each of the Project Cities prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, the following reports:

(i) semi-annual reports, not later than March 31 and October 31 in each calendar year, beginning on October 31, 2005: (A) integrating the results of the monitoring and evaluation activities, performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of Part B of the Project by the Recipient and Parts A and C of the Project

by Tianjin and the Project Cities respectively, during the six-month period preceding the date of said report; and (B) setting out the measures recommended to ensure the efficient carrying out of the Respective Part of the Project and the achievement of the objectives thereof during the period following such date; and

- (ii) a mid-term report, not later than May 30, 2008, or such later date as the Bank may have agreed, integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraphs (a) and (b)(i) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof; and

(c) after furnishing:

- (i) each report referred to in sub-paragraph (b)(i) of this paragraph, review, and cause Tianjin and each of the Project Cities to review, said report with the Bank, and promptly take all measures required to ensure the efficient completion of the Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter; and
- (ii) the report referred to in sub-paragraph (b)(ii) of this paragraph, review, and cause Tianjin and each of the Project Cities to review, said report with the Bank, by July 31, 2008, or such later date as the Bank shall request, and, thereafter, take all measures required to ensure the efficient completion of the Respective Part of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

**Annex
to
SCHEDULE 4**

For purposes of paragraph 6 of Schedule 4 to this Agreement, each Implementation Agreement with Tianjin and each Project City shall contain provisions pursuant to which Tianjin and each Project City shall be obligated to carry out the actions applicable to it and set forth below.

Management

1. In order to facilitate the implementation of its Respective Part of the Project, Tianjin and each Project City:

(a) shall maintain within Tianjin and each Project City, throughout the period of implementation of the Project, with terms of reference, staffing and other resources satisfactory to the Bank, a Local Project Management Office, to be responsible for planning, coordinating and overseeing the implementation of its Respective Part of the Project; and

(b) shall maintain within Tianjin and each Project City, throughout the period of implementation of the Project, with terms of reference, staffing and other resources satisfactory to the Bank, a local experts group, to be responsible for providing technical advice on its Respective Part of the Project.

General Implementation

2. Tianjin and each Project City shall carry out its Respective Part of the Project in accordance with the Financial Management Manual, with due diligence and efficiency, and in conformity with appropriate administrative, economic, financial, energy efficiency, and technical practices and social and environment standards acceptable to the Bank and provide, or cause to be provided, promptly as needed the funds, facilities, services and other resources required for said carrying out of its Respective Part of the Project.

3. Without limitation to the foregoing, Tianjin and each Project City shall carry out the following:

(a) Procure goods, works, and services required for its Respective Part of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant in accordance with the provisions of Schedule 3 to this Agreement.

(b) Utilize said goods, works, and services exclusively for the purpose of carrying out its Respective Part of the Project.

(c) Enable the Recipient and the Bank to examine all goods, facilities, sites and works included in its Respective Part of the Project, the operation thereof, and any relevant records and documents.

4. In carrying out its Respective Part of the Project, Tianjin and each Project City shall:

(a) maintain, or cause to be maintained, a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures of Tianjin and said Project City's departments or agencies that are responsible for carrying out its Respective Part of the Project or any part thereof;

(b) have the records, accounts and financial statements referred to in subparagraph (a) of this paragraph for each fiscal year (or other period agreed to by the bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;

(c) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in subparagraph (a) of this paragraph, for such year (or such other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

(d) furnish to the Bank such other information concerning said records and accounts and the audit of such financial statements, and concerning said auditors, as the Bank may, from time to time reasonably request.

Sub-projects and Sub-grants under Parts A.1 and C.1 of the Project

5. Tianjin and each Project City shall ensure that: (a) Sub-projects shall be appraised, selected, and approved in accordance with the provisions of the Sub-project Preparation Manual, acceptable to the Recipient and the Bank; and (b) Sub-grants shall be made in accordance with procedures and on conditions satisfactory to the Bank, which shall include those set forth below in paragraphs 6, 7, 8, and 9 of this Annex. In the case of Tianjin, for a Sub-project to be eligible for financing out of the proceeds of a Sub-grant, the Sub-project shall be appraised, selected and approved in accordance with the provisions of the Sub-project Preparation Manual, acceptable to the Recipient and the Bank, no later than December 31, 2008.

6. Each Sub-grant for a Sub-project shall be made to a Sub-grant Beneficiary, who meets the eligibility criteria set forth in the Sub-project Preparation Manual, specifically including:

(a) it is a legal entity engaging housing development and heating system development, or another legal entity agreed by the Recipient and the Bank, to carry out the Sub-project;

(b) it is creditworthy and have a sound financial records and financial conditions;

(c) it is able, and has undertaken, to contribute the total estimated cost of the Sub-project (except for the financing from the proceeds of a Sub-grant); and

(d) it has the organization, management, staff and other resources required for the efficient carrying out of the Sub-project.

7. No expenditure for a Sub-project shall be eligible for financing out of the proceeds of a Sub-grant unless the Bank, MOC, Tianjin or each Project City shall have determined, on the basis of an appraisal carried out in accordance with guidelines acceptable to the Bank, the Sub-project meets the following requirements:

(a) the Sub-project's proposal relates to the city-wide HRBEE Program and includes feasibility studies for implementation of the Sub-project.

(b) the Sub-project proposal includes: (i) implementation, financial management, and procurement arrangements for the Sub-project, satisfactory to MOC and the Bank; and (ii) evidence, satisfactory to MOC and the Bank that the Sub-project Beneficiary has staff in place, who has the sufficient capacity to implement the Sub-project and manage the accounting, procurement, and monitoring aspect of the Sub-project;

(c) the Sub-project proposal includes an environmental analysis report and a social analysis report, satisfactory to MOC and the Bank, for the overall heating system development, and/or housing development which hosts the Sub-project; and for the Sub-project itself, based on the Social Safeguards Framework and the Environmental Safeguards Framework;

(d) the Sub-project proposal includes a public participation strategy for consultation with and participation of the local residents and relevant stakeholders, satisfactory to MOC and the Bank; and

(e) the Sub-project proposal includes evidence, satisfactory to MOC and the Bank that the Sub-project Beneficiary has the financial capacity to finance the cost of the Sub-project not financed out of the proceeds of the Sub-grant.

8. (a) No Sub-project shall be eligible for a Sub-grant unless Tianjin and each Project City shall obtain, by a written contract with the Sub-grant Beneficiary, or by other appropriate legal means, rights adequate to protect the interest of Tianjin, such Project City, the Recipient and the Bank, including that each Sub-grant Beneficiary shall undertake to:

- (i) carry out its Sub-project, with due diligence and efficiency, in accordance with appropriate financial, managerial, energy efficiency, and technical practices, and consistent with construction, safety, social, and environmental standards acceptable to the Recipient and the Bank, and provide promptly as needed the funds, and other resources required for the Sub-project;
- (ii) if its respective Sub-project involves the involuntary resettlement of Displaced Persons, take and cause to be taken all measures necessary to ensure that all such persons shall be resettled and compensated prior to implementation of the Sub-project in accordance with a resettlement action plan prepared based on the Social Safeguards Framework, approved by the Bank; and furnish any proposed revisions of said plan to the Bank for its prior approval;
- (iii) if the environmental screening carried out in accordance with principles set forth in the Environmental Safeguards Framework concludes that an environmental management plan is required, said Sub-project should be carried out in accordance with said environmental management plan, which has been approved by the Bank; and furnish any proposed revisions of said plan to the Bank for its prior approval;
- (iv) if a social assessment conducted in accordance with the Social Safeguards Framework concludes that an ethnic minorities development plan is required, said Sub-project should be carried out in accordance with said ethnic minorities development plan, which has been approved by the Bank, to ensure that the design and implementation of the Sub-project adequately addresses the needs, cultural practices and preferences of ethnic minorities; furnish any proposed revisions of said plan to the Bank for its prior approval;
- (v) procure the goods, works, and services required for its respective Sub-project in accordance with the provisions of Schedule 3 to this Agreement, and utilize said goods, works, and services exclusively in the carrying out of said Sub-project;

- (vi) enable the Bank, the Recipient, Tianjin and the concerned Project City to inspect the goods, the sites and works included in its respective Sub-project, the installation, operation and maintenance thereof and any relevant records and documents; and enable Tianjin or the Project City to take required actions to certify the Sub-project outputs referred to in paragraph 9 of this Annex;
 - (vii) at all times maintain and operate its equipment and facilities, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and industry practices;
 - (viii) maintain adequate records and accounts;
 - (ix) (i) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators included in the Sub-project proposal the implementation of its Sub-project; (ii) prepare, under terms of reference acceptable to the Bank, and furnish to Tianjin and each Project City, semiannual reports, not later than March 31 and October 31 of each year summarizing said monitoring activities carried out during the preceding calendar semester; (iii) afford Tianjin, or the Project City, and the Bank a reasonable opportunity to exchange views with said Beneficiary on each said report; and (iv) thereafter, promptly take all measures required to ensure the continued efficient carrying out of its Sub-project, based on the conclusions and recommendations of said report and the views of the Bank on the matter; and
 - (x) provide all such information as Tianjin, or the Project City, the Recipient or the Bank may reasonably request regarding the management, operations and financial condition of the Sub-grant Beneficiary (including its current year financial statement, records or accounts).
- (b) Tianjin and each Project City shall:
- (i) suspend or terminate the eligibility of the Sub-grant Beneficiary to receive the proceeds of the Sub-grant in the event of failure by such beneficiary to perform its obligations under its contract with them;
 - (ii) request said beneficiary to refund an amount of the Sub-grant if it is determined at any time that such amount of the Sub-grant

was used in a manner inconsistent with the provisions of said contract between the Sub-grant Beneficiary and Tianjin or a Project City; and

- (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-grants, or any portion thereof, without the prior approval of the Bank.

9. (a) The proceeds of a Sub-grant in an amount of the twenty percent (20%) of the Sub-grant shall not be made available to a Sub-grant Beneficiary, until the Recipient shall have furnished to the Bank a compliance evaluation report concerning a Sub-project, with supporting documents, satisfactory to the Bank, certified by a responsible agency in Tianjin or a Project City, which verifies that:

- (i) the Sub-grant Beneficiary has received an official approval for the building and heating systems design by the relevant authority, which meet the technical specifications and requirements satisfactory to the Recipient and the Bank;
- (ii) the Sub-grant Beneficiary has received a construction permit for the heating system or the housing complex from the relevant authority where the Sub-project will be carried out; and
- (iii) the first batch of goods (energy efficiency materials and equipment, building components and heating system equipment) procured for the Sub-project have been shipped to the construction site of the Sub-project; and these goods comply with technical specifications satisfactory to the Recipient and the Bank based on inspections by the relevant authority of Tianjin or a Project City.

(b) The proceeds of a Sub-grant in an amount of the additional sixty percent (60%) of the Sub-grant shall not be made available to the Sub-grant Beneficiary, until the Recipient shall have furnished to the Bank a compliance evaluation report concerning the Sub-project, with supporting documents, satisfactory to the Bank, certified by a responsible agency in Tianjin or a Project City, which verifies that:

- (i) the quality of all additional goods (energy efficiency materials and equipment, building components and heating system equipment) procured for the Sub-project complies with technical specifications satisfactory to the Recipient and the Bank based on inspections by the relevant authority of Tianjin or a Project City; and

- (ii) the goods (energy efficiency materials and equipment, building components and heating system equipment) procured for the Sub-project have been installed in the Sub-project in accordance with the technical specifications satisfactory to the Recipient and the Bank.

(c) The proceeds of a Sub-grant in an amount of the remaining twenty percent (20%) of the Sub-grant shall not be made available to the Sub-grant Beneficiary, until the Recipient shall have furnished to the Bank a compliance evaluation report concerning the Sub-project, with supporting documents, satisfactory to the Bank, certified by a responsible agency in Tianjin or a Project City, which verifies that the Sub-project has been completed in accordance with the technical specifications satisfactory to the Recipient and the Bank.

(d) The provisions in this paragraph 9 shall be included in each contract entered into between the Sub-grant Beneficiary and Tianjin or a Project City for providing for a Sub-grant with respect to a specific Sub-project.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1) through (4) 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 equal to US\$1,800,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
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, 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 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.