

Public Disclosure Authorized

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF057330-MOG

Global Environment Facility Trust Fund Grant Agreement

(Renewable Energy and Rural Electricity Access Project)

between

MONGOLIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated February 6, 2007

Public Disclosure Authorized



GEF TRUST FUND GRANT NUMBER TF057330-MOG

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT dated February 6, 2007, (“GEF Grant Agreement”) entered into between MONGOLIA (“Recipient”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“IBRD” or the “World Bank”), acting as an implementing agency of the Global Environment Facility, established pursuant to Resolution No. 91-5 of March 14, 1991 and Resolution No. 94-2 of May 24, 1994 of the Executive Directors of the World Bank (“GEF”), for grant funds provided to the GEF Trust Fund by certain members of the World Bank as participants of the GEF.

The Recipient and the World Bank hereby agree as follows:

ARTICLE I

Standard Conditions; Definitions

- 1.01. The Standard Conditions, as defined in the Appendix to this GEF Grant Agreement, constitute an integral part of this GEF Grant Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this GEF Grant Agreement have the meanings ascribed to them in the Standard Conditions, and in the preamble and the Appendix to this GEF Grant Agreement.

ARTICLE II

The Project

- 2.01. (a) The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Ministry of Fuel and Energy with the assistance of the National Renewable Energy Center in accordance with the provisions of Article II of the Standard Conditions and the Annex to Schedule 2 to this Agreement.
- (b) The Recipient, through the Ministry of Fuel and Energy, shall take all necessary actions, including the issuance of orders as shall be required, to assign the National Renewable Energy Center with such powers, functions and responsibilities, in a manner and substance satisfactory to the Association, as shall be required to enable the National Renewable Energy Center to assist in the carrying out the Project.

- 2.02. Without limitation upon the provisions of Section 2.01 of this GEF Grant Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this GEF Grant Agreement.

ARTICLE III

The GEF Grant

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this GEF Grant Agreement, a grant in an amount equal to three million five hundred thousand Dollars (USD3,500,000) (“GEF Grant”) to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the GEF Grant in accordance with Section IV of Schedule 2 to this GEF Grant Agreement.

ARTICLE IV

Remedies of the World Bank

- 4.01. The Additional Events of Suspension referred to in Section 4.02(i) of the Standard Conditions, consist of the following:
- (a) The NREC Project Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of NREC to assist the Recipient in the carrying out of the Project.
 - (b) The Netherlands Trust Fund Grant Agreement has failed to become effective by July 31, 2007, or such later date as the World Bank has established by notice to the Recipient; provided, however, that the provisions of this sub-paragraph shall not apply if the Recipient established to the satisfaction of the World Bank that adequate funds for the Project are available from other sources on terms and conditions consistent with its obligations under this GEF Grant Agreement.
 - (c) The World Bank has determined after the Effective Date that prior to such date but after the date of this GEF Grant Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient’s right to make withdrawals from the GEF Grant Account if this GEF Grant Agreement had been effective on the date such event occurred.

ARTICLE V**Effectiveness**

- 5.01. This GEF Grant Agreement shall become effective upon receipt by the World Bank of evidence, satisfactory to the World Bank, indicating that the conditions specified below have been satisfied:
- (a) The execution and delivery of this GEF Grant Agreement on behalf of the Recipient has been duly authorized or ratified by all necessary governmental and corporate action.
 - (b) The Financing Agreement has been executed and delivered, and all conditions precedent to its effectiveness, or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this GEF Grant Agreement), have been fulfilled.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01(a), there shall be furnished to the World Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the World Bank or, if the World Bank so requests, a certificate satisfactory to the World Bank of a competent official of the Recipient, showing the following matters:
- (a) on behalf of the Recipient, that this GEF Grant Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and
 - (b) the Order No.110 dated November 15, 2006 issued by the Ministry of Fuel and Energy referred to in Section 2.01(b) of this Agreement is legally binding and enforceable in accordance with Mongolia law.
- 5.03. Except as the Recipient and the World Bank shall otherwise agree, this GEF Grant Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this GEF Grant Agreement (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the GEF Grant Account if the GEF Grant Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this sub-paragraph until such event (or events) has (or have) ceased to exist.
- 5.04. This GEF Grant Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this GEF Grant Agreement, unless the World Bank, after consideration of

the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

- 5.05. For purposes of Section 6.01 of the Standard Conditions, the obligations of the Recipient under the Project shall be deemed terminated twenty (20) years after the date of this GEF Grant Agreement.

ARTICLE VI

Representatives; Addresses

- 6.01. The Recipient's Representative referred to in Section 6.03 of the Standard Conditions is the Minister of Finance.
- 6.02. The Recipient's Address referred to in Section 6.02 of the Standard Conditions is:

Ministry of Finance
Government Building 2
United Nations 5/1
Ulaanbaatar 210646

Facsimile:

(976-11) 26-22-72

- 6.03. The World Bank's Address referred to in Section 6.02 of the Standard Conditions is:

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

Cable Address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

1-202-477-6391

AGREED at Ulaanbaatar, Mongolia, as of the day and year first above written.

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

By /s/ Arshad Sayed
Authorized Representative

MONGOLIA

By /s/ Namid Bayartsaikhan
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to assist the Recipient in: (i) expanding and improving access to electricity and reliability of electricity services in selected off-grid Soum centers and among the herder population; and (ii) removing barriers to the scale-up of renewable energy use.

The Project consists of the following parts:

Part A: Herder's Electricity Access

1. Design and implementation of a Smart Subsidy Program through Sales and Service Centers, including: (i) the development of its legal and institutional framework; (ii) the financing of sales incentives for the commercialization of approximately fifty thousand (50,000) SPV and SWT Systems for nomadic herders; and (iii) the design and implementation of a battery management program.
2. Adoption of required technical standards and procedures for testing, validating and certifying the SPV and SWT Systems to be included in the Smart Subsidy Program.
3. Provision of marketing and sales support for the commercialization of SPV and SWT Systems through Sales and Service Centers by carrying out public awareness and consumer education campaigns, including: (i) the preparation of a sales catalog listing validated SPV and SWT Systems; (ii) the display of sample SPV and SWT Systems; (iii) the provision of after-sale services and enforcement of consumers warranties; and (iv) the promotion of the battery management program.
4. Design and carrying out of surveys to measure consumers' acceptance of SPV and SWT Systems and, their perception of the systems' quality, the responsiveness of Sales and Service Centers, the reliability of vendors of SPV and SWT Systems, and the benefits derived from the increased access to electricity.

Part B: Soum Centers' Electricity Service Improvements

1. Development and implementation of a policy and regulatory framework for the provision of electricity service in off-grid Soum centers, providing for: (i) private sector participation in the operation and maintenance of Soums' microgrids and power generation utilities; and (ii) the adoption and implementation, by Soums

and/or the Soums' generation utilities, of economically sound tariff-setting, metering, billing, and revenue management practices.

2. Establishment of electricity users associations and set up of commercially viable electricity service utilities in selected Soum centers, including the strengthening of the institutional capacity of selected Soum-level related agencies.
3. Carrying out of technical and feasibility studies in selected Soum centers, including the development of tender documents, for: (i) the rehabilitation of the Soum centers' microgrids; and (ii) the configuration and construction of renewable or renewable-diesel hybrid systems of up to 200kW to expand Soum centers' power generation capacity.
4. Provision of energy management assistance to selected Soum-level public service institutions.
5.
 - (i) Rehabilitation of microgrids in approximately thirty (30) selected off-grid Soum centers; and
 - (ii) conversion of the existing (diesel) generation systems of the established electric power utilities in approximately twenty (20) selected off-grid Soum centers into renewable or renewable-diesel hybrid generation systems.

Part C: Institutional Capacity Building

1. Strengthening of the institutional capacity of the National Renewable Energy Center to assist in the carrying out the Project, including: (i) the preparation of business plans; (ii) work programs; (iii) Project monitoring and evaluation; (iv) Project reporting; (v) Project management; (vi) incremental costs; and (vii) the provision of training and technical assistance therefor.
2. Strengthening of the policy and regulatory capacity of the renewable energy Recipient agencies, including the National Renewable Energy Center in order to promote the use of renewable energy, including the development of a national policy and regulatory framework for renewable energy generation.

SCHEDULE 2**Project Execution****Section I. Management Arrangements****A. Project Management.**

1. The Recipient shall establish within the Ministry of Fuel and Energy, and thereafter maintain throughout the period of implementation of the Project, a Project Steering Committee with representation from, *inter alia*, the National Renewable Energy Center, the Ministry of Fuel and Energy, the Ministry of Nature and Environment and the Ministry of Finance, which committee shall be assigned with such functions and responsibilities, satisfactory to the World Bank, as shall be required to oversee the execution of the Project.
2. Without limitation to the obligations set forth in Section 4.03 of the General Conditions, the Recipient shall, upon the World Bank's approval of each Annual Work Plan to be prepared by the Ministry of Fuel and Energy with the assistance of the National Renewable Energy Center pursuant to Section I.B.2 of the Annex to Schedule 2 to this Agreement, promptly transfer to the National Renewable Energy Center, in a manner satisfactory to the World Bank, the total amount therein required to cover the portion of Project expenditures to be financed by the Recipient during the Fiscal Year covered by each such program.
3. The Recipient undertakes that any and all procurement and commercialization of SPV and SWT Systems, by either the Recipient or the National Renewable Energy Center to be financed out of the Recipient's and the National Renewable Energy Center's own resources after October 16, 2006 shall be carried out through competitive, transparent, economic and efficient processes acceptable to the World Bank.
4. The Recipient shall, and shall cause the National Renewable Energy Center to: (i) commercialize all SPV and SWT Systems procured by the Recipient or the National Renewable Energy Center pursuant to Section I.A.3 above, through: (A) the selected SPV and SWT System vendors participating in the Project; and (B) the Sales and Service Centers established under the Project; and (ii) collect and administer the proceeds of these sales through the Subsidy Account for the payment of sales incentives under Part A.1(ii) of the Project, exclusively.
5. The Recipient undertakes to use any additional funds that shall be committed by the Recipient from time to time to fund activities similar to those under the Project, in particular SPV and SWT Systems, in a manner and substance acceptable to the World Bank and compatible with the objectives of the Project.

Section II. Project Monitoring, Reporting, Evaluation**A. Project Reports.**

1. (a) The Recipient shall with the assistance of the National Renewable Energy Center monitor and evaluate the progress of the Project and prepare annual Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in sub-paragraph (c) of this paragraph. Each annual Project Report shall cover the period of one (1) Fiscal Year, and shall be furnished to the World Bank not later than ninety (90) days after the end of the period covered by such report.

(b) Notwithstanding sub-paragraph (a) above, the Recipient with the assistance of the National Renewable Energy Center shall also prepare, by not later than January 31, April 30, July 31 and October 31 of each year, simplified quarterly Project Reports, in form and substance satisfactory to the World Bank, covering the Project activities of the preceding calendar quarter; and soon thereafter furnish each such report to the World Bank.

(c) The performance indicators referred to above in sub-paragraph (a) consist of the following:

 - (i) about 50,000 SPV or SWT Systems sold to herders by December 31, 2011;
 - (ii) about 200,000 herders (including their families) benefiting from first electricity access or improved electricity services by December 31, 2011;
 - (iii) about thirty (30) Soum grids rehabilitated with improved tariff and billing systems and functioning Soum utilities and electricity user associations by December 31, 2011;
 - (iv) about twenty (20) power systems with renewable or renewable-diesel hybrid generation installed in selected Soum centers by December 31, 2011; and
 - (v) about 16,000 people in selected Soum centers benefiting from improved electricity services by December 31, 2011.
2. The Recipient shall prepare a Recipient's Completion Report in accordance with the provisions of Section 2.06(d) of the Standard Conditions. The Recipient's Completion Report shall be furnished to the World Bank not later than June 30, 2012.

B. Financial Management, Financial Reports and Audits of the Project.

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall have its Financial Statements audited in accordance with the provision of Section 2.07(b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one (1) Fiscal Year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General.

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the GEF Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods.

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under Supply and Installation contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) <i>Shopping</i>
(b) <i>Direct Contracting</i>

C. Particular Methods of Procurement of Consultants’ Services.

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) <i>Quality-Based Selection</i>
(b) <i>Selection Based on Consultants’ Qualifications</i>
(c) <i>Least-Cost Selection</i>
(d) <i>Individual Consultant</i>

D. Review by the World Bank of Procurement Decisions.

1. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) each contract for goods procured on the basis of International Competitive Bidding; (b) the first three contracts for goods to be procured under Shopping procedures, regardless their value; (c) all contracts for goods procured on the basis of direct contracting procedures; (d) each contract for consultants’ services provided by a firm procured on the basis of quality and cost-based selection, quality-based selection or least cost selection, regardless of their value; (e) the first three contracts for consultants’ services to be procured under Selection Based on Consultants’ Qualifications, regardless of their value; and (f) each contract for consultant’s services provided by an individual consultant estimated to cost the equivalent of USD50,000 or more. All other contracts shall be subject to Post Review by the World Bank.

Section IV. Withdrawal of the Proceeds of the GEF Grant

A. General.

1. The Recipient may withdraw the proceeds of the GEF Grant in accordance with the provisions of this Section and such additional instructions as the World Bank may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the GEF Grant (“Category”), the allocations of the amounts of the GEF Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category (including taxes):

Category	Amount of the GEF Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed
(1) Goods and consultants’ Services, training and workshops under Part A of the Project (except Part A.1(ii)).	900,000	100%
(2) Consultants’ services training and workshops under part B.2 of the Project.	200,000	56%
(3) Consultants’ services under Part B.3 of the Project.	400,000	100%
(4) Goods under Part B.5(ii) of the Project	1,400,000	26%
(5) Consultants’ services, training and workshops under Part C.1(iii), C.1(iv) and C.1(v) of the Project	260,000	100%
(6) Consultants’ Services, training and workshops under Part C.2 of the Project	190,000	63%
(7) Incremental Operating Costs under Part C.1(vi) of the Project	150,000	100%
TOTAL AMOUNT	<u>3,500,000</u>	

B. Withdrawal Conditions; Withdrawal Period.

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement, except that: (i) withdrawals up to an aggregate amount not to exceed USD20,000 equivalent may be made for payments made prior to this date but on or after November 1, 2006, for Eligible Expenditures under Category (5); and (ii) withdrawals up to an aggregate amount not to exceed USD10,000 equivalent may be made for payments made prior to this date but on or after November 1, 2006 for Eligible Expenditures under Category (7).
2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2011.

Annex**Section I. Institutional and Other Arrangements****A. Project Management.**

1. The Recipient shall, through its Ministry of Fuel and Energy, establish and maintain, throughout the period of implementation of the Project, a Project Implementation Unit (PIU) within the National Renewable Energy Center to assist in the day-to-day implementation of the Project, including the financial management, procurement, training coordination, monitoring, evaluation and reporting activities under the Project, in a manner satisfactory to the World Bank, said unit to be provided with sufficient staff and resources, under the direction of qualified and experienced managers, including a Project Executive Director, two Operation Officers, an Operation Assistant, a Financial Officer, an Accountant and a Procurement Officer, all of them with terms of reference satisfactory to the World Bank.

2. (a) For purposes of Section II.B of Schedule 2 to this Agreement, the Recipient shall select, by no later than December 31, 2007, and thereafter retain throughout the implementation of the Project, an independent auditor acceptable to the World Bank, under terms of reference satisfactory to the World Bank, to carry out the annual audits of all Project accounts (including the Subsidy Account) and Financial Statements.

(b) In carrying out the audits, the independent auditor shall also furnish to the World Bank a separate management letter which shall: (i) identify any material weaknesses in the accounting and internal control procedures; (ii) assess the compliance with the financial covenants of this Agreement and the Global Environment Facility Trust Fund Grant Agreement; and (iii) report on any matters which, to the auditors' judgment, might materially and adversely affect the implementation of the Project.

B. General Implementation Arrangements.

1. (a) In carrying out the Project the Recipient shall prepare, adopt and apply throughout the implementation of the Project, a Project Implementation Manual satisfactory to the World Bank providing for:

- (i) the institutional arrangements for the implementation of the Project;
- (ii) the structure and governance of the Smart Subsidy Program, including: (A) the procedures and criteria for selecting private partners interested in establishing Sales and Service Centers; (B) a model form partnership arrangement to be entered with selected partners to establish SSCs, detailing tasks,

responsibilities and remedies, subsidy payment conditions, reporting requirements, and supervision and monitoring procedures; (C) the procedures and quality criteria for selecting the participating vendors of SPV and SWT Systems; (D) a model form sales arrangement to be entered with selected vendors of SPV and SWT Systems, detailing tasks, responsibilities and remedies, reporting requirements, and supervision and monitoring procedures; (E) the guidelines and procedures for testing and validating SPV and SWT Systems to be included in the Smart Subsidy Program; and (F) the operation manual for the administration of the Subsidy Account;

- (iii) the policies and guidelines for implementing the Soum centers' electricity improvements, including: (A) the procedures and criteria for selecting off-grid Soum centers for minigrid rehabilitation and the provision of renewable-diesel hybrid power generation systems; (B) a model form memorandum of understanding to be entered with selected Soum Centers, setting up the policy guidelines for (1) the management and operation of Soums' generation utilities on the basis of sound economic practices and (2) the implementation of mechanisms for stakeholders' participation in tariff-setting procedures and the monitoring of service quality;
- (iv) the financial management manual setting forth policies and procedures for fund and assets management, withdrawals applications and settlement of payments, accounting, maintenance of the records, reporting, internal control and auditing requirements;
- (v) the guidelines and procedures for the preparation and approval of each Annual Work Plan;
- (vi) the project-specific procurement guidelines covering the entire procurement cycle; and
- (vii) the policies and procedures for monitoring and evaluation of Project activities and their socio-economic impact including monitoring and verification protocols for the preparation of the Sales Reports.

(b) The Recipient shall not amend, waive, suspend, cancel or otherwise abrogate the Project Implementation Manual, or any provision thereof, without the prior concurrence of the World Bank.

2. The Recipient shall:

(a) prepare, in accordance with the Project Implementation Manual, and furnish to the World Bank for their comments and approval: (i) an Annual Work Plan identifying Project activities by component and sub-component, and their related expenditures and financing sources, to be carried out during Fiscal Year 2007; and (ii) by September 1 of each year, commencing on September 1, 2007, Annual Work Plan identifying Project activities by component and sub-component, and their related expenditures and financing sources, to be carried out during the following Fiscal Year;

(b) thereafter, carry out the Project in accordance with the respective annual work plan, as so approved.

C. Smart Subsidy Program.

1. In carrying out Part A.1 of the Project, the Recipient shall:

(a) open and maintain a Tugrog (MNT) denominated, account in a commercial bank under terms and conditions satisfactory to the World Bank, including those set forth in the Project Implementation Manual (the Subsidy Account); which account shall be protected against set-offs, seizures and attachment in term and conditions satisfactory to the World Bank;

(b) collect into, and administer through, the Subsidy Account the proceeds of the sales at wholesale prices of the SPV and SWT Systems directly procured by the Recipient;

(c) use the funds available in the Subsidy Account exclusively for the payment of the sales incentives under Part A.1(ii) of the Project, upon the sale and delivery to herders (as evidenced in the Sales Report) of the respective SPV and SWT Systems; and

(d) deposits into, and payments out of, the Subsidy Account shall be made in accordance with the provisions of the Financial Management Manual.

2. For purposes of Part A.1(ii) of the Project, the Recipient shall:

(a) select private partners for the establishment of SSCs and enter into partnership arrangements with the said partners, pursuant to the provisions of the Project Implementation Manual;

(b) select vendors of SPV and SWT Systems, and enter into sales arrangements with the said vendors, as provided for in the Project Implementation Manual, setting forth the structure of the flat sales incentives, including: (i) the agreed Price Subsidy Levels per herder household, per validated SPV and SWT System sold and

delivered; and (ii) the minimum quality standards and consumers warranties applicable to SPV and SWT Systems to be offered;

(c) design, prepare and, thereafter, regularly update a sales catalog of validated SPV and SWT Systems eligible for the sales incentives under the Smart Subsidy Program, pursuant to the provisions of the Project Implementation Manual and the sales arrangements entered with the respective vendors.

(d) certify to the World Bank on a quarterly basis, through Sales Reports satisfactory to the World Bank:

- (i) that the vendors and SSCs have sold and delivered all the SPV and SWT Systems for which sales incentives have been paid;
- (ii) that, at the date of each such payment, the respective vendors had performed, and were in compliance with, their respective obligations under the partnership and sales arrangements; and
- (iii) the number of SPV and SWT Systems sold and delivered, classified by SSCs, vendor and system cataloged, including a detail of vendors' purchases and sales during the quarter covered by each Sales Report, and their stocks of SPV and SWT Systems at the beginning and the end of each such quarter.

The Sales Reports shall be filed with the World Bank no later than fifteen (15) days after the end of each calendar quarter therein covered.

3. In carrying out Part A.1(iii) of the Project, the Recipient shall: (a) by no later than December 31, 2007, provide to the World Bank for their review and comments, a detail battery management program setting forth the strategy for recovering and treating the used batteries of SPV and SWT Systems; and (b) thereafter, implement said program, giving due consideration to the World Bank's view thereon.

D. Soum Centers' Electricity Service Improvements.

For purposes of carrying out Parts B.5(i) and B.5(ii) of the Project, the Recipient shall:

(a) select approximately thirty (30) off-grid Soum centers, in accordance with the Project Implementation Manual and their expressed written commitment to the provision of electricity service under sound economic practices, for the rehabilitation of their mini-grids; and

(b) select, in accordance with the Project Implementation Manual, approximately twenty (20) out of the aforementioned thirty (30) Soum centers (the Initial Phase), and enter into memoranda of understanding with the respective Soums agencies, as provided for in the Project Implementation Manual, for the provision of renewable or renewable-diesel hybrid generation systems to restructured electricity service utilities.

APPENDIX**Definitions**

1. “Annual Work Plan” means each of the work programs for Project activities to be carried out by the Recipient through its Ministry of Fuel and Energy with the assistance of the National Renewable Energy Center during the implementation of the Project, to be prepared pursuant to Section I.B.2 of the Annex to Schedule 2 to this Agreement and the provisions of the Project Implementation Manual.
2. “Category” means a category set forth in the table in Section IV of the Schedule 2 to this GEF Grant Agreement.
3. “Co-financiers” means: (i) the Global Environment Facility; and (ii) the Netherlands, through its Development Cooperation Ministry; and “Co-financier” means either one of them.
4. “Co-financing” means: (i) the grant in the amount of USD3,500,000 to be provided by IDA; and (ii) the grant in the amount of USD6,000,000 to be provided by the Netherlands, through its Development Cooperation Ministry, both of them to assist in financing the Project.
5. “Co-financing Agreements” means: (i) the Global Environment Facility Trust Fund Grant Agreement; and (ii) the Netherlands Trust Fund Grant Agreement; and “Co-financing Agreement” means either one of the agreements.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
7. “Dollar(s)” and the acronym “USD” mean the lawful currency of the United States of America.
8. “Fiscal Year” means the Recipient’s Fiscal Year, commencing on January 1 and finishing on December 31 of each year.
9. “Financial Management Manual” means the Recipient’s manual, to be adopted pursuant to Section I.B.1(a)(iv) of the Annex to the Schedule 2 to this Agreement, as such manual may be amended from time to time with the prior agreement of the World Bank.
10. “Financing Agreement” means the agreement of even date herewith, entered into between the Recipient and IDA, providing for IDA’s Co-financing, as such agreement may be amended from time to time.

11. “GEF Designated Account” means the Dollar denominated account, to be opened and maintained by the Recipient in accordance with Section 3.05 of the Standard Conditions, for the deposits of the amounts withdrawn from the GEF Grant Account pursuant to this GEF Grant Agreement.
12. “GEF Grant” means the Grant provided for in Section 3.01 of this GEF Grant Agreement.
13. “GEF Grant Account” means the Grant Account to be opened at the World Bank pursuant to Section 3.01 of the Standard Conditions.
14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants,” dated July 1, 2005.
15. “IDA” means the International Development Association.
16. “Incremental Operating Costs” means expenditures for the offices rental, vehicles operation and maintenance, travel allowances and per diem of the Project Implementing Unit’s staff, banking services, communications and internet expenditures and office supplies, incurred by the Project Implementing Unit in connection with the management and coordination of the Project, which expenditures would not have been incurred absent the Project, but excluding staff salaries.
17. “Ministry of Finance” means the Recipient’s Ministry of Finance and any successor thereto.
18. “Ministry of Fuel and Energy” means the Recipient’s Ministry of Fuel and Energy and any successor thereto.
19. “Ministry of Nature and Environment” means the Recipient’s Ministry of Nature and Environment and any successor thereto.
20. “National Renewable Energy Center” and the acronym “NREC” mean the state budget enterprise established on August 9, 2005 (State Registration No. 9070001007), pursuant to: (i) the Resolution of the Government of Mongolia No. 160, dated July 8, 2005; and (ii) the Order No.62 of the Ministry of Fuel and Energy, dated July 21, 2005 and attachments thereto, under the jurisdiction of the Ministry of Fuel and Energy.
21. “Netherlands Trust Fund Grant Agreement” means the agreement to be entered into between the Recipient and IDA, acting as administrator of the grant funds provided by the Netherlands, providing for the Netherlands’ Co-financing, as such agreement may be amended from time to time.

22. “Price Subsidy Levels” means the amount in cash to be paid by the Recipient through NREC to vendors of SPV and SWT Systems included in the Smart Subsidy Program pursuant to the sales arrangements provided in Section I.C.2(b) of the Annex to Schedule 2 to this Agreement, in the amount not greater than: (i) USD80 for SPV and SWT Systems with a generation capacity between 20Wp and 49Wp; and (ii) USD160 for SPV and SWT Systems with a generation capacity between 50Wp and 100Wp.
23. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
24. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 7, 2006, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
25. “Project Implementation Manual” means the Recipient’s implementation manual, referred to in Section I.B.1 of the Annex to Schedule 2 to this Agreement; as such manual may be amended from time to time with the prior agreement of the World Bank.
26. “Project Implementation Unit” means the implementation unit to be established and maintained within the National Renewable Energy Center pursuant to Section I.A.1 of the Annex to Schedule 2 to this Agreement, for purposes of assisting in the carrying out the implementation of the Project.
27. “NREC Project Legislation” means: (i) the Resolution of the Government of Mongolia No.160, dated July 8, 2005; (ii) the Order No.62 of the Ministry of Fuel and Energy, dated July 21, 2005 and attachments thereto; and (iii) the Order No.110 of the Ministry of Fuel and Energy, dated July 15, 2006, entrusting NREC with such powers, functions and responsibilities required to assist in the carrying out of the Project; as such resolution and orders may be amended to from time to time with the prior concurrence of the World Bank.
28. “Project Steering Committee” and the acronym “PSC” mean the committee to be established and maintained within the Ministry of Fuel and Energy pursuant to Section I.A.1 of Schedule 2 to this GEF Grant Agreement.
29. “Sales and Service Centers” and the acronym “SSCs” mean the centers referred to in Section I.C.2 of the Annex to Schedule 2 to this Agreement, responsible for the carrying out of the retail commercialization of SPV and SWT Systems and the provision of after-sales services therefor.
30. “Sales Reports” means the quarterly reports to be prepared by the Recipient with the assistance of the National Renewable Energy Center pursuant to Section I.C.2

of the Annex to Schedule 2 to this Agreement and the provisions of the Project Implementation Manual.

31. “Smart Subsidy Program” means the sales incentive program to be implemented under Part A of the Project, providing financial assistance (through price subsidies) to selected vendors, and training to SSCs, for the commercialization of SPV and SWT Systems, in accordance with Section I.C of the Annex to Schedule 2 to this Agreement and the provision of the Project Implementation Manual.
32. “Soum” means an administrative subdivision of the Recipient.
33. “Soum center” means the central township within a Soum.
34. “SPV and SWT Systems” means small electric photovoltaic and wind-turbine systems (consisting of: (i) Photovoltaic Module; (ii) Charge controller; (iii) Battery; (iv) Connection Cable; (v) Lighting set; (vi) Power box; and (vii) Mounting structure), with a power generation capacity within the ranges of: (i) 20Wp to 49Wp; and (ii) 50Wp to 100Wp.
35. “Standard Conditions” means the “Standard Conditions for Grants made by the World Bank, acting as an Implementing Agency of the Global Environment Facility” dated March 22, 2006.
36. “Subsidy Account” means the account referred to in Section I.C.1 of the Annex to Schedule 2 to this Agreement.