

CONFORMED COPY

OTF GRANT NUMBER TF 022017

OZONE PROJECTS TRUST FUND GRANT AGREEMENT

(Fourth Montreal Protocol Ozone Depleting Substances Phase-Out Project)

between

PEOPLE'S REPUBLIC OF CHINA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Trustee of the Ozone Projects
Trust Fund

Dated December 5, 1997

OTF GRANT NUMBER TF 022017

OZONE PROJECTS TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 5, 1997, between PEOPLE'S REPUBLIC OF CHINA (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, acting as Trustee of grant funds provided by Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer into the Ozone Projects Trust Fund (OTF) (the Trustee).

WHEREAS: (A) the International Bank for Reconstruction and Development (the Bank) pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank (the Resolution), established a Facility, including the OTF, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) the Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer to the Vienna Convention for the Protection of the Ozone Layer have established the Multilateral Fund (the Fund) for the Implementation of the Montreal Protocol to operate under the authority of the said Parties to provide the financing of agreed incremental costs to enable the Parties operating under paragraph 1 of Article 5 of the Protocol to comply with control measures provided for in the Protocol;

(C) the Executive Committee of the Fund (the Executive Committee) and the Bank have entered into an agreement effective on July 9, 1991, pursuant to which the Executive Committee has agreed to provide funds into the OTF to be administered by the Bank as Trustee in accordance with the provisions of the said agreement and the Resolution;

(D) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement, has requested assistance from the resources of the OTF in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution; and

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing, to extend a grant (the OTF Grant) to the Recipient upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Sections 5.01, 5.04, 5.05, 5.06, 5.07, 5.08, and 5.09;
- (vi) Sections 6.01, 6.02 (c), (d), (e), (f), (i) and (k), 6.03 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, 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 (8) and 6.02 (f) thereof and the second use of such term in Section 5.01 thereof (as revised in accordance with Section 1.01(b)(vii) of this Agreement), means the Trustee except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development 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 OTF Grant;
- (v) the term "Loan Account" wherever used in the General Conditions, means the OTF Grant Account;
- (vi) Section 4.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, withdrawals from the Loan Account shall be made in the currency of the ODS Phase-out Account specified in Section 2.02 (b) of the Loan Agreement.";

(vii) The second sentence of Section 5.01 is modified to read:

"Except as the Bank and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.";

(viii) Section 6.01 shall be modified to read: "the Recipient may, by notice to the Bank, cancel any amount of the OTF Grant which the Recipient shall not have withdrawn.";

(ix) a new sub-paragraph is added after sub-paragraph (j) in Section 6.02 of the General Conditions, as follows: "an extraordinary situation shall have arisen in which any further disbursement under the OTF Grant would exceed the resources available for disbursement from the OTF."; and

(x) Section 6.03 is modified to read:

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

that
of the
or the
timely

the
of
out of
amount
(f)

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) "Agency" means the agency or agencies employed to assist NEPA with the carrying out of the Project, as referred to in Part A.3 of Schedule 3 to this Agreement.

(b) "Agency Service Fee" means the fee referred to in Part A.4(a)(ii) of Schedule 3 to this Agreement for consultants' services undertaken by the Agency to assist NEPA in the carrying out of an Annual Program.

(c) "Annual Performance Audit Report" means the report of the audit of the implementation of an Annual Program, as referred to in Part A.6(b) of Schedule 3 to this Agreement.

(d) "Annual Program" means a program of actions aimed at reducing ODS Consumption in any one ODS Sector in the course of a Program Year, within the ODS Sector Phase-Out Plan for such Sector, as referred to in Part C.1 of Schedule 3 to this Agreement.

(e) "Annual Program Amount" means the part of the proceeds of the OTF Grant approved by the Executive Committee as part of said committee's approval of an Annual Program, and to be disbursed for the carrying out of said Annual Program in accordance with this Agreement.

(f) "Country Program" means the Recipient's Country Program for the Phase Out of Ozone Depleting Substances under the Montreal Protocol, dated January 1993, as approved by the Executive Committee in March 1993, and as the same may be amended from time to time (in agreement between the Recipient and the Executive Committee).

(g) "Government Agencies" means the departments and agencies of the Recipient involved in the implementation of the Project in accordance with this Agreement and the Project Implementation Manual, including the National Leading Group for Ozone Layer Protection, the Ministry of Finance, NEPA, the Recipient's departments and agencies (including provincial and local level bureaus) responsible for any ODS Sector, and provincial and local level, Environmental Protection Bureaus.

(h) "NEPA" means the Recipient's National Environmental Protection Agency, and any successor thereto.

(i) "ODS" means any ozone depleting substance or substances, including halon 1211 and 1301, chlorofluorocarbons 11, 12 and 113, carbon tetrachloride and methyl chloroform.

(j) "ODS Consumption" means the production, export and import of ODS at the national level.

(k) "ODS Phase-out Account" means the account referred to in Section 2.02 (b) of this Agreement.

(l) "ODS Reduction" means expenditures incurred under an ODS Reduction Contract, as determined in accordance with the Annual Program in pursuance of which said contract has been entered into.

(m) "ODS Reduction Contract" means a contract entered into between NEPA on behalf of the Recipient and a legal entity, established under the laws of the Recipient, implementing a reduction of ODS Consumption, under which the Recipient agrees to pay such legal entity a specified amount per unit of ODS Consumption reduced or to be reduced by said legal entity, in accordance with an Annual Program.

(n) "ODS Sector" means the following production and user industry sectors in which ODS Consumption takes place: (i) halon; (ii) aerosol; (iii) foam; (iv) production sector; (v) industrial and commercial refrigeration; (vi) household refrigeration; and (vii) mobile air conditioning; and also including any other such production or user industry sector as agreed between the Recipient and the Trustee.

(o) "ODS Sector Phase-Out Plan" means a plan of actions aimed at reducing ODS Consumption in any one ODS Sector over a period of years, as referred to in Part C.1 of Schedule 3 to this Agreement.

(p) "Program Year" means a period of one calendar year (or in the case of the first such Program Year for any ODS Sector, a period of 6 to 18 consecutive calendar months and ending on December 31, as agreed between the Recipient and the Trustee) covered by an Annual Program.

(q) "Project Implementation Manual" means the manual adopted by the Recipient in accordance with Part B.2(a) of Schedule 3 to this Agreement, setting out the detailed operational, financial, administrative, procurement, disbursement, accounting, auditing, and monitoring procedures governing the implementation of the Project, as this manual may be revised from time to time in agreement with the Trustee.

(r) "Project Management Fee" means the fee referred to in Part A.4(a)(i) of Schedule 3 to this Agreement for project management activities undertaken by NEPA for the carrying out of an Annual Program.

ARTICLE II

The OTF Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the OTF Grant in an

amount not exceeding one hundred million Dollars (\$100,000,000).

Section 2.02. (a) The amount of the OTF Grant may be withdrawn from the OTF Grant Account for expenditures made (or, if the Trustee shall so agree, to be made) in respect of ODS Reduction, the Project Management Fee, the Agency Service Fee and the reasonable cost of consultants' services (other than the Agency Service Fee) and training required for carrying out the Project and to be financed out of the proceeds of the OTF Grant.

(b) The Recipient shall, for the purposes of the Project open and maintain a special deposit account (the ODS Phase-out Account) in a commercial bank on terms and conditions satisfactory to the Trustee, including appropriate protection against set off, seizure or attachment. All withdrawals from the OTF Grant Account shall be deposited by the Trustee into the ODS Phase-out Account in Dollars. Deposits into, and payments out of, the ODS Phase-out Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2011 or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

Section 2.04. The Trustee shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for the purposes of the Project from the Executive Committee.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 1 to this Agreement and, to this end, shall carry out the Project through the Government Agencies with due diligence and efficiency and in conformity with appropriate environmental, financial and administrative practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Trustee shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of consultants' services required for the Project and to be financed out of the proceeds of the OTF Grant shall be governed by the provisions of Schedule 2 to this Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Trustee, and furnish to the Trustee 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 Trustee, a plan designed to ensure the continued achievement of the Project's objectives; and

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

ARTICLE IV

Financial Covenants

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

(b) The Recipient shall:

(i) have the records and accounts referred to in paragraph (a) of this

Section including those for the ODS Phase-out Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee;

- (ii) furnish to the Trustee as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Trustee shall have reasonably requested; and
- (iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

ARTICLE V

Effectiveness; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the OTF Grant Agreement within the meaning of Section 12.01(b) of the General Conditions:

- (a) the first Annual Program for the halon sector has been approved by the Trustee and the Executive Committee;
- (b) the Project Implementation Manual has been adopted by the Recipient the Trustee in accordance with Part B.2(a) of Schedule 3 to this Agreement; and
- (c) a regulation for a production quota system for the halon sector, acceptable to the Trustee, has been adopted by the Recipient and has entered into effect.

Section 5.02. 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 5.03. This Agreement shall continue in effect until the OTF Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VI

Representative of the Recipient; Addresses

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

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

For the Recipient:

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

Cable address:

FINANMIN
Beijing

Telex:

22486 MFPRC CN

For the Trustee:

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

Cable address:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Pan Xiaojiang

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as Trustee of the Ozone Projects Trust Fund

By /s/ Yukon Huang

Country Director, China

SCHEDULE 1

Description of the Project

The objective of the Project is to assist the Recipient in carrying out its Country Program so as to phase-out ODS Consumption within its territory.

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

Part A Reduction of ODS

Reduction of ODS Consumption in ODS Sectors through the preparation and implementation of Annual Programs.

Part B Institutional Strengthening

Strengthening the management and operational capability of NEPA, the Agency and other departments and agencies of the Recipient in accordance with Annual Programs, through the provision of training and consultants' services.

* * * * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 2

Consultants' Services

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 (the Consultant Guidelines) and the following provisions of this Schedule.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services

shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

1. Selection Under a Fixed Budget

Services to be provided under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection

Services to be provided under the Project estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications

Services to be provided under the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

4. Single Source Selection

Services to be provided under the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Trustee's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. Individual Consultants

Services to be provided under the Project for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Trustee for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Trustee, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications,

experience, terms of reference and terms of employment of the consultants shall be furnished to the Trustee for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

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

SCHEDULE 3

Implementation Program

A. Project management and monitoring

1. The Recipient shall implement the Project through the Government Agencies and shall ensure that all Government Agencies shall perform their respective responsibilities in accordance with this Agreement and the Project Implementation Manual.

2. The Recipient shall ensure that NEPA shall maintain, throughout the implementation of the Project, a Project Management Office (the PMO) staffed by competent staff in adequate numbers to be responsible for overall coordination and supervision of Project execution as well as the overall assessment of the quality and impact of the Project and the preparation and furnishing to the Trustee of reports and other information thereon.

3. The Recipient shall employ, throughout the implementation of the Project, one or more agencies (the Agency) acceptable to the Trustee under terms of reference satisfactory to the Trustee and in accordance with the provisions of Schedule 2 to this Agreement, to assist NEPA in carrying out the Project, including: (i) ODS Reduction activities at the enterprise level; and (ii) management information system.

4. (a) For project management services provided by NEPA under paragraph 2 above and the services provided by the Agency under paragraph 3 above, a fee of three percent (3 %) of each Annual Program Amount shall be payable as follows:

(i) NEPA shall be entitled to a fee of not more than one and one-half percent (1.5%) of such Annual Program Amount (the Project Management Fee); and

(ii) the Agency shall be entitled to a fee of not less than one and one-half percent (1.5%) of such Annual Program Amount (the Agency Service Fee).

(b) In addition to the limitations upon withdrawals from the OTF Grant Account in respect of the Agency Service Fee and the Project Management Fee provided in paragraph 3 (a), (b), (c) and (d) of Schedule 4 to this Agreement, each such Fee for any Program Year shall be payable in installments of 50%, 30% and 20%, and only after the Trustee shall have notified the Recipient that the preconditions set out for each such installment in the Project Implementation Manual shall have been met.

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

6. For each Program Year, the Recipient shall, through NEPA, furnish to the Trustee reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 5 above, in a format acceptable to the Trustee, as follows:

(a) four quarterly progress reports to be submitted not later than 45 days following the end of each calendar quarter of the said Program Year and describing the progress achieved in carrying out the Annual Program for said Program Year during the immediately preceding calendar quarter, except that progress achieved in implementing any Annual Program concerning an ODS Sector that is a consumption sector, shall be included only in the second and fourth quarterly progress reports; and

(b) an Annual Performance Audit Report, comprising a performance audit of the

carrying out of the Annual Program for said Program Year, prepared by an independent audit agency and in accordance with terms of reference acceptable to the Trustee, and to be furnished to the Trustee not later than the first day of the seventh month of the next following Program Year.

7. (a) The Recipient shall, through NEPA, ensure that the quarterly progress reports prepared in accordance with paragraph A.6 above shall:

- (i) for the second quarterly progress report, set out the measures recommended to ensure the efficient carrying out of the Annual Program concerned in the remainder of the Program Year; and
- (ii) for the fourth quarterly progress report, set out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the next following Program Year.

(b) The Recipient shall review each such progress report with the Trustee and take account of measures mentioned therein in the preparation of the Annual Program for the following Program Year, based on the conclusions and recommendations of said report and taking into account the Trustee's views on the matter.

B. Project Implementation Manual

1. The Recipient shall implement the Project in accordance with the Project Implementation Manual.

2. The Recipient shall:

(a) furnish a draft manual to the Trustee for its approval, and adopt said manual as approved; and

(b) thereafter, shall furnish any proposed change to the Project Implementation Manual to the Trustee for its prior approval.

C. ODS Sector Phase-Out Plans and Annual Programs

1. The Recipient shall, through NEPA:

(a) prepare and furnish to the Trustee for approval (and furnishing to the Executive Committee for approval) a plan for the phasing out of ODS Consumption in an ODS Sector in the Recipient's territory over a period of years;

(b) prepare and implement annual programs of actions for the reduction of ODS Consumption in any ODS Sector in the Recipient's territory in accordance with the Project Implementation Manual, within the ODS Sector Phase-Out Plan for such Sector as approved by the Executive Committee;

(c) furnish each proposed Annual Program to the Trustee for approval prior to the commencement of the implementation of such Annual Program. The first Annual Program to be so furnished shall concern the halon sector. Additional ODS Sectors shall be the subject of Annual Programs in accordance with the procedures set out in the Project Implementation Manual;

(d) implement each such Annual Program as approved; and

(e) furnish any proposed revision to an Annual Program to the Trustee for its prior approval.

2. Each Annual Program shall, for the Program Year and ODS Sector concerned, include:

(a) a base-line and phase-out target for ODS;

(b) the Annual Program Amount available for disbursements;

(c) policy instruments to be implemented;

(d) an enterprise level action program to be carried out; and

(e) technical assistance to be carried out, including terms of reference for consultants' services and a detailed training program.

SCHEDULE 4

ODS Phase-out Account

1. For the purposes of this Schedule, the term "eligible expenditures" means expenditures in respect of ODS Reduction, the Project Management Fee, the Agency Service Fee and the reasonable cost of consultants' services (other than the Agency Service Fee) and training required for the Project and to be financed out of the proceeds of the OTF Grant. Eligible expenditures shall be specified in an Annual Program, and shall not include expenditures incurred prior to the date of this Agreement, except for expenditures incurred in an amount not exceeding \$200,000 for consultants' services for the management information system for the Project.

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

3. After the Trustee has received evidence satisfactory to it that the ODS Phase-out Account has been duly opened, withdrawals from the OTF Grant Account in respect of any Annual Program shall be made based on requests by the Recipient for deposits into the ODS Phase-out Account as follows:

(a) The amounts allocated in such Annual Program for the Agency Service Fee, other consultants' services and training may be withdrawn upon approval of the Annual Program by the Trustee and the Executive Committee.

(b) The first 50% of the amount allocated in such Annual Program for ODS Reduction and the Project Management Fee may be withdrawn only after receipt by the Trustee of documentary evidence acceptable to the Trustee that:

(i) said Annual Program has been approved by the Trustee and the Executive Committee;

(ii) with the exception of the first Annual Program Amount for any ODS Sector, ODS Consumption for the ODS Sector covered by said Annual Program during the preceding Program Year for said ODS Sector has not exceeded the production target set for the said preceding Program Year, or such ODS Consumption during the first nine months of said Program Year has not exceeded 80% of the production target set for the entire Program Year; and

(iii) other disbursement conditions regarding the said first 50% of such Annual Program Amount, as set forth in the said Annual Program or as set forth in the Project Implementation Manual, have been met.

(c) The next 30% of the amount allocated in such Annual Program for ODS Reduction and the Project Management Fee may be withdrawn only after receipt by the Trustee of:

(i) with the exception of the first Annual Program Amount for any ODS Sector, ODS Consumption for the ODS Sector covered by said Annual Program during the preceding Program Year for said ODS Sector has not exceeded the production target set for the said preceding Program Year;

(ii) confirmation acceptable to the Trustee that ODS Reduction Contracts have been signed in pursuance of which ODS Consumption will be reduced to at least the target set in the said Annual Program;

(iii) a progress report, acceptable to the Trustee, on the implementation of the said Annual Program; and

(iv) documentary evidence acceptable to the Trustee, that other disbursement conditions regarding the said 30% of such Annual

Program Amount as set forth in the said Annual Program or as set forth in the Project Implementation Manual, have been met.

(d) The final 20% of the amount allocated in such Annual Program for ODS Reduction and the Project Management Fee may be withdrawn only after receipt by the Trustee of:

(i) a progress report, acceptable to the Trustee, on the implementation of the said Annual Program;

(ii) with the exception of the first Annual Program Amount for any ODS Sector, the Annual Performance Audit Report, acceptable to the Trustee, regarding the implementation of the Annual Program for the Program Year immediately preceding the Program Year for which the said Annual Program Amount is made available; and

(iii) documentary evidence acceptable to the Trustee, that other disbursement conditions regarding the said 20% of such Annual Program Amount as set forth in the said Annual Program or as set forth in the Project Implementation Manual, have been met.

On the basis of such request or requests, the Trustee shall withdraw from the OTF Grant Account and deposit into the ODS Phase-out Account such amount or amounts as the Recipient shall have requested, provided that the applicable conditions set forth or referred to in paragraph 3(a), (b), (c) and (d) of this Schedule 4 have been met to the satisfaction of the Trustee.

4. For each payment made by the Recipient out of the ODS Phase-out Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. (a) If the Trustee shall have determined at any time that any payment out of the ODS Phase-out Account was made for an expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee: deposit into the ODS Phase-out Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount so used or the portion thereof.

(b) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the ODS Phase-out Account.

(c) Refunds to the Trustee made pursuant to paragraphs 4 (a) and (b) of this Schedule shall be credited to the OTF Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

