

CONFORMED COPY

GET GRANT NUMBER 28665

Global Environment Trust Fund  
Grant Agreement

(Coal-to-Gas Conversion Project)

between

REPUBLIC OF POLAND

and

INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT

acting as Trustee of the Global Environment  
Trust Fund

Dated December 19, 1994

GET GRANT NUMBER 28665

GLOBAL ENVIRONMENT TRUST FUND GRANT AGREEMENT

AGREEMENT, dated December 19, 1994, between the REPUBLIC OF POLAND (the Recipient) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT acting as Trustee (the Trustee) of grant funds provided by Participants of the Global Environment Facility into the Global Environment Trust Fund (GET).

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 the Global Environment Facility consisting of the GET, Cofinancing Arrangements with the GET and the Ozone Projects Trust Fund, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

(B) certain members of the Bank (the Participants) have provided resources by way of grant into the GET and the Participants have requested and the Bank has agreed, to administer such grant funds as Trustee, for the purposes of, and in accordance with, provisions of the Resolution;

(C) a Loan Agreement (3190-POL) dated April 25, 1990 between the International Bank for Reconstruction and Development and the Republic of Poland provide for assistance in the environment and environmental management sectors;

(D) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested assistance from the resources of the GET in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the

Resolution;

(E) the Kingdom of Norway (Norway) and the Republic of Poland have entered into an agreement (the Norwegian Grant Agreement) providing a grant in an amount of Norwegian Kroner seven million four hundred twenty-five thousand (Nkr 7,425,000) (the Norwegian Grant) to assist in financing a portion of the Project described in Schedule 2 to this Agreement;

(F) Norway and the Trustee have entered into an agreement dated March 24, 1993 (the Cofinancing Agreement) for joint financing of the Project and for the administration of the Norwegian Grant by the Trustee; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

#### ARTICLE I

##### General Conditions; Definitions

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

- (i) Article I;
  - (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
  - (iii) Section 3.01;
  - (iv) Section 4.01 and the first sentence of Section 4.09;
  - (v) Article V;
  - (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i) and (k), 6.03, 6.04 and 6.06;
  - (vii) Section 8.01 (b);
  - (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
  - (ix) Sections 10.01, 10.03 and 10.04;
  - (x) Article XI; and
  - (xi) Sections 12.01, 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: "the term "Special Drawing Rights" and the symbol "SDR" mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement";
  - (ii) the term "Bank", wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the 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;
  - (iii) the term "Recipient", wherever used in the General Conditions, means the Recipient;
  - (iv) the term "Loan Agreement", wherever used in the General Conditions, means this Agreement;
  - (v) the term "Loan" and "loan" wherever used in the General

Conditions, means the GET Grant or the Norwegian Grant or both, as the context may require;

- (vi) the term "Loan Account" wherever used in the General Conditions, means the GET Grant Account or the Norwegian Grant Account or both, as the context may require;
- (vii) a new sub-paragraph shall be added after sub-paragraph (j) in Section 6.02 of the General Conditions, as follows: "An extraordinary situation shall have arisen in which further disbursement under the GET Grant or the Norwegian Grant would exceed the resources available for disbursement from the GET."; and
- (viii) for the purposes of this agreement, the words "the Bank may, by notice to the Recipient and the Guarantor, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 of the General Conditions are deleted and the following is substituted therefor:

"or (f) by January 1, 1998 any portion of the GET Grant or the Norwegian Grant with respect to Categories (1) and (4) of Schedule 1 to this Agreement shall be uncommitted, the Trustee may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals from the GET Grant Account and the Norwegian Grant Account, with respect to such amount or portion of the GET Grant and the Norwegian Grant, respectively. Upon the giving of such notice, such amount or portion of the GET Grant and the Norwegian Grant shall be cancelled."

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

- (a) "BOS" means Bank Ochrony Srodowiska SA (Bank for Environmental Protection), entered in the commercial Register of the District Court for the Capital City of Warsaw on September 28, 1990, under items No. B 25127;
- (b) "GET Grant Account" means the account opened by the Trustee on its books in the name of the Recipient to which the amount of the GET Grant is credited;
- (c) "MOE" means the Recipient's Ministry of Environmental Protection, Natural Resources and Forestry;
- (d) "Norwegian Grant Account" means the account referred to in the Cofinancing Agreement;
- (e) "Project Agreement" means the agreement to be entered into between the Recipient and BOS, as the same may be amended from time to time;
- (f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and
- (g) "Sub-Grant Agreement(s)" means the agreement(s) to be entered into between BOS and specific beneficiaries, as the same may be amended from time to time.

## ARTICLE II

### The GET Grant; Allocation and Withdrawal of Proceeds of the GET Grant and the Norwegian 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 GET Grant in an amount in various currencies equivalent to seventeen million two hundred thousand Special Drawing Rights (SDR 17,200,000).

Section 2.02. (a) The amount of the GET Grant and the amount of the Norwegian Grant may be withdrawn from the GET Grant Account and the Norwegian Grant Account, respectively, in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee 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 GET Grant and the Norwegian Grant.

(b) Each application for withdrawal shall be deemed to be a request to withdraw funds from both the GET Grant Account and the Norwegian Grant Account, and the funds to be withdrawn pursuant to such application shall be apportioned by the Trustee, as nearly as practicable in the circumstances, between the GET Grant and the Norwegian Grant in the ratio of 80:20, or such other ratio as shall be determined by the Trustee to take into account exchange rate fluctuations.

(c) If at any time the amount of the GET Grant or of the Norwegian Grant shall have been fully withdrawn or cancelled, applications by the Recipient for further withdrawals shall be deemed to be for withdrawal of the full amount applied for from the GET Grant Account or the Norwegian Grant Account only, as the case may be, and the provisions of the Section, except for paragraph (b) above, shall continue to apply mutatis mutandis until the full amount credited to such remaining Account shall have been withdrawn or cancelled.

(d) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account in a bank acceptable to the Trustee on terms and conditions satisfactory to the Trustee, including appropriate protection against set-off, seizure or attachments. 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, 2000, 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 purpose of the Project.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project, through MOE, with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices and with due regard to ecological and environmental factors, and shall provide or cause to be provided, when 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 4 to this Agreement.

(c) The Recipient shall make the proceeds of the GET Grant and the Norwegian Grant available to BOS under a Project Agreement to be entered into between the Recipient and BOS, under terms and conditions which shall have been approved by the Trustee.

(d) The Recipient shall exercise its rights under the Project Agreement in such manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the GET Grant and the Norwegian Grant, and except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Project Agreement or any provision thereof.

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

Section 3.03. The Recipient shall establish, no later than one month after the date of this Agreement, a Scientific and Technical Advisory Panel under terms of reference satisfactory to the Trustee, which shall review all project applicants for funding under the Project and ensure all activities are designed and carried out in a technically sound manner.

Section 3.04. The Recipient shall monitor, or cause to be monitored, the

coal-to-gas conversion program (Schedule 2, Part A.1) and the energy efficiency and conservation program (Schedule 2, Part A.2) in accordance with terms of reference satisfactory to the Trustee.

#### ARTICLE IV

##### Financial Covenants

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

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the 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 such records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Trustee has received the audit report for the fiscal year in which the last withdrawal from the GET Grant Account or the Norwegian Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Trustee's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Effective Date; Termination

Section 5.01. This Agreement shall not become effective until evidence satisfactory to the Trustee shall have been furnished to the Trustee that the execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental action.

Section 5.02. This Agreement shall enter into effect on the date upon which the Trustee dispatches to the Recipient notice of effectiveness.

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

Section 5.04. 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.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of the Ministry for Environmental Protection, Natural Resources and Forestry 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 for Environmental Protection,  
Natural Resources and Forestry  
Wawelska 52/54  
00-922 Warsaw, Poland

Fax:

(22) 254-784

Telex:

812616 (WODORO PL)  
817157 (WODORO PL)

For the Trustee:

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:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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

REPUBLIC OF POLAND

By /s/ Stanislaw Zelichowski

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT as Trustee of  
the Global Environment Trust Fund

By /s/ Paul Knotter

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GET Grant  
and the Norwegian Grant

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

| Category                               | Amount of the GET Grant Allocated (Expressed in SDR Equivalent) | Amount of the Norwegian Grant Allocated (Expressed in Norwegian Kroner) | Expenditures to be Financed   | % of Expenditures to be Financed |
|--|---|---|---|----------------------------------|
| (1) Goods, civil works and materials   | 11,980,000  | 5,140,000   | 100% of foreign expenditures; 100% of local expenditures (ex-factory); 85% of local expenditures for other items procured locally |                                  |
| (2) Consultants' services and training | 1,660,000   | 717,000   | 100%  |                                  |
| (3) Project administration fees        | 410,000   | 177,000   | 100%  |                                  |
| (4) Contractual services               | 260,000   | 114,000   | 100%  |                                  |
| (5) Unallocated                        | 2,890,000   | 1,277,000   |   |                                  |
| TOTAL                                  | 17,200,000  | 7,425,000   |   |                                  |

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

3. The Trustee may require withdrawals from the GET Grant Account or the Norwegian Grant Account to be made on the basis of statements of expenditure for expenditures under contracts not exceeding \$250,000 equivalent, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

4. If the Trustee shall have determined at any time that any payment made from the GET Grant Account or the Norwegian Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee for deposit into the GET Grant Account or the Norwegian Grant Account, as the case may be, an amount equal to the amount so used or the portion thereof as specified by the Trustee.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to stimulate self-replicable technological and institutional changes that would promote coal-to-gas conversion in small- and medium-size boilers and induce more energy efficient practices in architectural design and operation of new residential buildings, to demonstrate interfuel substitution and to improve the overall energy efficiency throughout the heat supply chain (that is, heat supply, distribution and transfer systems, end use equipment and user behavior), as a means of reducing carbon dioxide emissions.

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

Part A:

1. Coal-to-Gas Conversion: Conversion to gas-firing of about 44 coal-fired non-industrial boilerhouses, using either high efficiency gas-fired boilers or gas-fired cogeneration (combined heat and electric power) systems.

2. Energy Efficiency and Conservation: increased insulation for walls, ceilings and windows, improved efficiency, automation and control of heat installation and energy efficient electric appliances for between 670 to 800 new residential building units, including increasing energy conservation awareness of residential tenants.

Part B:

Strengthening MOE's project administration, engineering and management services, by, inter alia, the provision of services for project appraisal, supervision of implementation, monitoring and marketing, including assistance to BOS, the national scientific technical advisory panel, local technical advisory groups, and boiler owners.

\* \* \*

The Project is expected to be completed by June 30, 2000.

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines) and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D.1 of this Section, the Bank's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Recipient shall use the relevant standard bidding documents issued by the Trustee, with such modifications thereto as the Trustee shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Trustee, the Recipient shall use bidding documents based on other internationally recognized standard forms agreed with the Trustee.

2. To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost the equivalent of \$300,000 or more.

3. Except as the Trustee shall otherwise agree, contracts for goods and works for individual coal-to-gas conversion projects shall be procured on the basis of single-responsibility bid packages covering engineering, procurement and construction.

###### Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in the territory of the Recipient may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

###### Part C: Other Procurement Procedures



1. Goods and works for high efficiency heat-only boiler systems may be procured under contracts awarded through limited inter-national bidding procedures on the basis of evaluation and comparison of bids invited from a list of qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

2. (a) Equipment and materials, such as heat control and measuring equipment and weatherization equipment estimated to cost less than the equivalent of \$300,000 per contract, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least three countries eligible under the Guidelines, in accordance with procedures satisfactory to the Trustee, subject to paragraph (c) below.

(b) Contracts for equipment and materials estimated to cost the equivalent of less than \$50,000 per package may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers, in accordance with procedures satisfactory to the Trustee, subject to paragraph (c) below.

(c) The aggregate amount of contracts awarded pursuant to (2)(a) and (2)(b) above shall not exceed \$1,000,000 equivalent.

(d) Contracts for items the Trustee agrees are of a proprietary nature or where compatibility with installed equipment is required may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Trustee.

(e) Contractual services, for the environmental monitoring and the marketing program, up to an aggregate amount equivalent to \$370,000, shall be procured under contracts awarded on the basis of competitive bidding, advertised locally in accordance with procedures satisfactory to the Bank.

Part D: Review by the Trustee of Procurement Decisions

1. Review of invitations to bid and of proposed awarded and final contracts:

(a) With respect to (i) the first three contracts to be awarded in accordance with Part C.1 of this Schedule; (ii) each contract estimated to cost the equivalent of \$300,000 or more under Section I.A of this Schedule; and (iii) each contract awarded in accordance with Part C.2(d) and (e) of this Schedule, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Trustee pursuant to said paragraph 2 (d) shall be furnished to the Trustee prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Trustee pursuant to said paragraph 3 shall be furnished to the Trustee as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statement of expenditures.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded to consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Trustee. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Trustee on the basis of the "Guidelines for the Use of Consultants by World Bank Recipients and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, the Recipient shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the International Bank for Reconstruction and Development, with such modifications as

shall have been agreed by the Trustee. Where no relevant standard contract documents have been issued by the International Bank for Reconstruction and Development, the Recipient shall use other standard forms satisfactory to the Trustee.

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

#### SCHEDULE 4

##### Implementation Program

1. MOE, through its Department Polityki Ekologicznej (Department of Ecological Policy), will be responsible for the overall coordination and implementation of the Project. MOE will also be responsible for monitoring and reviewing project activities and products.

2. BOS will administer the project activities and will coordinate the activities of its central and regional offices to properly accomplish these activities. BOS shall designate a Project Director who shall be assigned qualified staff in sufficient numbers to carry out its project activities. BOS will: (a) supervise the implementation of the pilot projects in Krakow; (b) promote the Project concept nationwide; (c) receive and evaluate applications for financing under this Project; (d) submit proposals for review and clearance to a national Scientific and Technical Advisory Panel; (e) act as syndicator of funds for each individual coal-to-gas conversion project determined to be eligible for financing; (f) appraise individual projects, supervise their implementation and monitor performance results; and (g) administer and channel funds from the project to the prospective beneficiaries through monitorable accounts designated for these purposes only.

3. The Scientific and Technical Advisory Panel shall render a final evaluation of both coal-to-gas conversion and energy efficiency projects; and in this capacity it will advise BOS with respect to these projects. It shall consist of five independent scientists whose qualifications and experience shall be satisfactory to the Trustee. The Panel will consist of three members from the Recipient, other than persons affiliated in any manner with MOE, the National Fund for Environmental Protection and Water Management, and BOS (an energy audit/end-user energy efficiency specialist, a district heat specialist, and an instrumentation and monitoring specialist), and two members who will be internationally selected (a gas cogeneration specialist and an energy economist). The Panel shall, inter alia, ensure that each individual project design considers, inter alia: (a) supplementary energy-efficiency improvements in the heat distribution and transfer systems associated with the converted boilers and in the existing building supplied by these boilers; (b) connection to main network fuels; and (c) integrated monitoring system to assess project performance and environmental benefits.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (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 GET Grant or the Norwegian Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$500,000

to be withdrawn from the GET Grant Account and the Norwegian Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Trustee shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Trustee pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

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

3. After the Trustee 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 Trustee a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the GET Grant Account or the Norwegian Grant Account, as the case may be, and deposit in 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 Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the GET Grant Account or the Norwegian Grant Account, as the case may be, 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 Trustee from the GET Grant Account or the Norwegian 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 Trustee shall reasonably request, furnish to the Trustee 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 Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the GET Grant Account or the Norwegian 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 Trustee, 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 Trustee pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Trustee shall have notified the Recipient to make withdrawals from the GET Grant Account and Norwegian Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GET Grant or the Norwegian Grant allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Trustee pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the GET Grant Account or the Norwegian Grant Account of the remaining unwithdrawn amount of the GET Grant or the Norwegian Grant, as the case may be, allocated to the eligible Categories shall follow such procedures as the

Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee 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 Trustee 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 Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee 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 Trustee 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 Trustee, refund to the Trustee such outstanding amount.

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

(d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GET Grant Account or the Norwegian Grant Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

