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CONFORMED COPY

GEF FSP TRUST FUND GRANT NUMBER TF057269 HU

Global Environment Facility Trust Fund Grant Agreement

(Geothermal Power Pilot Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

and

MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY

Dated November 21, 2006

GEF FSP TRUST FUND GRANT NUMBER TF057269 HU

**GLOBAL ENVIRONMENT FACILITY TRUST FUND
GRANT AGREEMENT**

AGREEMENT dated November 21, 2006, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“World Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”); and MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED COMPANY (“Recipient”).

The World Bank and the Recipient hereby agree as follows:

Article I

Standard Conditions; Definitions

- 1.01. The “Standard Conditions for Grants Made by the World Bank Out of Various Funds”, dated July 20, 2006 (“Standard Conditions”) attached in Section II of the Appendix to this Agreement constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

Article II

The Project

- 2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall carry out the Project in accordance with the provisions of Article II of the Standard Conditions and those of the United Nations Framework Convention on Climate Change.
- 2.02. Without limitation upon the provisions of Section 2.01 of this 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 Agreement.

Article III

The Grant

- 3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to three million seven hundred twenty thousand United States Dollars (US\$3,720,000) (“Grant”) to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section III of Schedule 2 to this Agreement.

Article IV

Additional Remedies

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following:
 - (a) *Ineligibility.* IBRD or IDA has declared the Recipient ineligible to be awarded a contract financed by IBRD or IDA.
 - (b) The Government Resolution or the Articles of Association have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to carry out the Project or to perform any of its obligations under this Agreement.

Article V

Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied:
 - (a) The execution and delivery of this Agreement on behalf of the Recipient have been duly authorized or ratified by all necessary governmental and corporate action.
 - (b) The condition of the Recipient, as represented or warranted to the World Bank at the date of this Agreement, has undergone no material adverse change after such date.
 - (c) The Recipient shall have paid to the Bank the non-refundable processing fee in United States Dollars in an amount equal to ten thousand United

States Dollars (US\$10,000) and a premium in United States dollars in an amount equal to three percent (3%) of the Insurable Expenses, as such premium amount shall be converted into United States Dollars using the exchange rate quoted in paragraph 4, Section III.A of Schedule 2 to this Agreement.

- 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 showing, on behalf of the Recipient, that this 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.
- 5.03. Except as the Recipient and the World Bank shall otherwise agree, this 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 ("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 Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 5.04. This 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 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.

Article VI

Recipient's Representative; Addresses

- 6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the President for Exploration and Production of the Recipient.
- 6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

MOL Hungarian Oil and Gas Public Limited Company
Október huszonharmadika u. 18.
1117 Budapest
Republic of Hungary

Facsimile:

(36-1) 464-1760

6.03. The World Bank's Address referred to in Section 7.01 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:	Telex:	Facsimile:
INTBAFRAD	248423 (MCI) or	(1-202) 477-6391
Washington, D.C.	64145 (MCI)	

AGREED at Budapest, Republic of Hungary, 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/ Suman Mehra
Authorized Representative

MOL HUNGARIAN OIL AND GAS PUBLIC LIMITED
COMPANY

By /s/ Attila Holoda
Authorized Representative

By /s/ Tamas Tarnai
Authorized Representative

Additional clause on MOL's copy:

Megállapítás	Szervezet	Dátum	Név	Aláírás
Szakmailag rendben	Geotermikus Pilot Projekt	2006. 11.13	Kujbus Attila	
Jogilag rendben	Jog	2006. 11.13	Dr. Boronyai Orsolya	
Pénzügyileg rendben	Kontrolling	2006. 11.14		
	Kockázatkezelés	2006. 11.14		
	Treasury	2006. 11.14		
	Számvitel	2006. 11.14		
	Adó	2006. 11.14		

SCHEDULE 1

Project Description

The objective of the Project is to increase the share of electricity from renewable energy sources in the Republic of Hungary's grid mix.

The Project consists of the following: provision of a Geological Risk Insurance scheme to cover the short-term geological risk in connection with the drilling and testing expenses related to geothermal energy operations undertaken by the Consortium led by the Recipient.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. MOL, the Operator of the Consortium

The Recipient shall have exclusive responsibility for the carrying out the Project, being solely responsible for any action taken by any party to the Consortium which may affect the efficient implementation of the Project.

B. Procedures for Claim Filing and Terms and Conditions of the Geological Risk Insurance

For the purposes of filing of a claim for compensation under the Geological Risk Insurance scheme under the Project, the Recipient shall submit to the World Bank a Verification Report before the Closing Date, which shall include the following information: (i) an assessment of geothermal parameters by an independent entity satisfactory to the World Bank; (ii) an audited report of the Insurable Expenses actually incurred prepared by an auditor acceptable to the World Bank; and (iii) a record of the Exploration Activities actually performed by the Recipient or its contractors.

Failure by the Recipient to complete the envisaged Exploratory Activities or to submit the Verification Report satisfactory to the World Bank before the Closing Date shall result in the denial of the underlying claim and termination of this Agreement without any liability to the Recipient.

Section II. Project Monitoring, Reporting and Evaluation

Project Reports

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions on the basis of the information on the statements of Insurable Expenses. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report.

Section III. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions; (ii) this Section; and (iii) such

additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures consisting of the Adjusted Compensation Amount as such Amount shall have been determined by the World Bank, and which shall exclude any expenditures for goods, works or services related to the carrying out of the Project.

2. The Maximum Compensation Amount shall be determined on the basis of the estimated cost in Hungarian Forint (HUF) of the Insurable Expenses listed in Attachment 1 hereto. The maximum liability of the Bank shall not exceed in any event eighty-five percent (85%) of the estimated cost of the Insurable Expenses as converted into United States Dollars (“Maximum Compensation Amount”) at the exchange rate determined in accordance with the provisions of paragraph 4 of this Section.

3. The Maximum Compensation Amount shall be subject to adjustment during the claim filing process stipulated above in Part B of Section I on the basis of the Insurable Expenses actually spent and as reported in the Verification Report. If the sum of the amount actually spent for each item under the Insurable Expenses does not exceed the Insurable Expenses as originally estimated, eighty-five percent (85%) of such actual sum shall become the Adjusted Maximum Compensation Amount as denominated in United States dollars at the exchange rate determined in accordance with the provisions of paragraph 4 of this Section. For such purposes, Attachment 2 hereto defines the parameters of success, failure and partial failure, and the methodology to calculate the Adjusted Compensation Amount.

4. The exchange rate applicable in calculating the Maximum Compensation Amount and the Adjusted Maximum Compensation Amount under this Agreement shall be 213.89 Hungarian Forints per 1 United States Dollar.

5. If and to the extent the World Bank determines that a payment shall be made under the Project, such payment shall: (i) be denominated in United States Dollars; (ii) be made within thirty (30) days after the submission of Verification Report; and (iii) be credited to the bank account to be designated by the Recipient at the time of claim filing.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

- (a) for Exploration Activities undertaken prior to the date of this Agreement; or
- (b) for any payment for Taxes levied by or in the territory of the Member Country in respect of the amounts to be paid hereunder.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is September 30, 2007. The Bank may extend the Closing Date by notice to the Recipient by one (1) month upon payment by the Recipient of an extension fee amounting to ten thousand United States dollars (US\$10,000).

Section IV. Other Undertakings

The Recipient shall:

(a) use all reasonable, due and usual care and skill in conducting the Exploration Activities;

(b) comply with all laws and regulations applicable in undertaking and conducting the Exploration Activities;

(c) take all measures necessary to carry out the Environmental Management Plan in a timely manner, ensuring adequate information on the implementation of said measures is suitably included in the Project Reports;

(d) maintain the financial, technical and engineering records of the Exploration Activities; and

(e) promptly notify the World Bank of any material changes in the Exploration Activities (including material physical damages) or the organizational and ownership arrangement of the Consortium.

Attachment 1**Insurable Expenses**1. Well Completion

No.	Activity	Cost (M HUF)
1	Site preparations	151.3
2	Drilling, Well completion	227.6
3	Transportation of materials	16.4
4	Operation material	22.5
5	Rental costs	7.8
6	Cementing, pumping, compressing services	15.3
7	Services	82.6
8	Well construction material	53.8
9	Supervision	16.4
10	Technical insurance	28
11	Aciding and other	61.1
	Total	682.8

2. Surface Facilities

No.	Subject	Cost (M HUF)
1	Well-area works	4
2	Pipeline (1300 m.)	26
3	Equipments, machinery, including Electrical Submersible Pump	83
4	Technological implementation	11
5	Control engineering	11
6	Electric supply	9
7	General construction	4
8	Health Safety and Environment	1
9	Investment services, including technical planning	21
	Total	170

3. Testing Process

No.	Subject	Cost (M HUF)
1	Short term testing services	18
2	Long term testing services	18
3	Energy supply	4
	Total	40

4. General and Administration

No.	Subject	Cost (M HUF)
1	Salaries, wages	8
2	Services	35
	Total	43

Insurable Expenses: (1. + 2. + 3. + 4.) HUF 935.8 million.

Attachment 2

Parameters of Success/Failure and the GRI Payment

The following will be used as the geothermal parameters and threshold values to determine the success and failure of the Exploration Activities.

Parameter:

Geothermal water flow rate produced and reinjected measured at the production wellhead, as stated in the Verification Report.

Threshold values:

Exploration Activities are considered as total success, partial success, or total failure at the following threshold values.

- Total success:* 2,100 cubic meters per day or higher (“Upper Threshold Value”).
- Total failure:* 1,200 cubic meters per day or lower (“Lower Threshold Value”).
- Partial success:* Any values between the two thresholds above.

GRI Payments:

The World Bank shall pay the Adjusted Compensation Amount to the Recipient depending on the threshold values defined above.

- Total success:* No amount shall be paid.
- Total failure:* The Adjusted Maximum Compensation Amount shall be paid.
- Partial success:* The Adjusted Compensation Amount payable under the GRI shall be calculated by multiplying the Adjusted Maximum Compensation Amount by the Ratio corresponding to the measured flowrate as in the table below.

Flowrate (m3/day)	Ratio
1,201-1,300	94%
1,301-1,400	83%
1,401-1,500	72%
1,501-1,600	61%
1,601-1,700	50%
1,701-1,800	39%
1,801-1,900	28%
1,901-2,000	17%
2,001-2,099	6%

Determination of Parameter Value:

The parameter values for the purpose of success/failure shall be determined based on the reservoir evaluation report to be prepared by an independent consulting firm which the World Bank shall have found satisfactory. A certified copy of the report shall be submitted to the World Bank for review.

APPENDIX

Section I. Definitions

1. “Adjusted Compensation Amount” means the amount denominated in United States Dollars payable by the Bank out of the proceeds of the Grant to the Recipient under the Project as determined according to the methodology stipulated in Attachment 2 to Schedule 2 based on the Adjusted Maximum Compensation Amount.
2. “Adjusted Maximum Compensation Amount” means the maximum amount denominated in United States Dollars payable by the Bank out of the proceeds of the Grant to the Recipient under the Project as adjusted based on the sum of the actually incurred expenditures for Insurable Expenses less any residual value of the equipment in the case of total failure and not exceeding the Maximum Compensation Amount.
3. “Articles of Association” means the Articles of Association of the Recipient dated September 1, 2005, as amended to the date of this Agreement.
4. “Consortium” means, collectively, the Recipient, Enex Iceland and Vulcan Kft, the parties to the Joint Operating Agreement signed on March 6, 2006, stipulating the respective rights and obligations of such parties to the joint exploration, appraisal, development, operation and production of geothermal reserves covered under the Project.
5. “Environmental Management Plan” means, collectively, the environmental license granted on June 24, 2005, in favor of the Recipient by the Hungarian West-Danubian Environmental, Natural Protection and Water Authority for a geothermal power plant to be established in the Iklódbördöce-Csömödér area, and the related Public Notice issued on May 4, 2005, by the same authority on the license application, as the same may be amended and updated from time to time pursuant to the applicable legislation and regulations.
6. “Exploration Activities” means the testing and drilling activities to be carried out by the Recipient under the Project.
7. “Geological Risk Insurance” and “GRI” mean the compensation scheme to be provided under the Project.
8. “Government Resolution” means the Resolution of the Hungarian Government No. 3149/1991 (IV.11) on the basis of which the Recipient has been established as a publicly held company limited by shares, in accordance with the provisions of the Hungarian Act No. VI of 1988 as amended and replaced by the Hungarian

Act No. IV of 2006 through the transformation of the Hungarian Oil and Gas Corporation.

9. “Fiscal Year” means the twelve (12) month period corresponding to any of the Recipient’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.
10. “Insurable Expenses” means the reasonable costs of expenditures incurred by the Recipient for testing, drilling, and exploration activities under the Project and which include the cost and expenses for equipment, technologies, services, preparatory and labor cost for geothermal exploratory operations such as exploratory drilling of testing wells and production wells, well testing, and data collection and analysis, but excluding any taxes imposed thereon, which are itemized and valued in Attachment 1 to Schedule 2 and on the basis of which the Maximum Compensation Amount shall be calculated.
11. “Maximum Compensation Amount” means an amount equal to eighty-five percent (85%) of the Insurable Expenses as initially estimated, converted into United States Dollars at the exchange rate determined in accordance with the provisions of paragraph 4 of Section III.A of Schedule 2 to this Agreement.
12. “Verification Report” means the claim verification report setting forth the Insurable Expenses which shall be prepared by the Recipient before the Closing Date for purposes of calculating the Adjusted Maximum Compensation Amount.

Section II.

Standard Conditions

**for
Grants
made by
the**

World Bank

**out of
Various Funds**

ARTICLE I

Introductory Provisions

Section 1.01. *Application of Standard Conditions.* These Standard Conditions set forth certain terms and conditions generally applicable to grants made by IBRD or IDA out of various funds (other than IDA resources). They apply to the extent specified in the Grant Agreement.

Section 1.02. *Inconsistency with Grant Agreement.* If any provision of the Grant Agreement is inconsistent with a provision of these Standard Conditions, the provision of the Grant Agreement shall govern.

Section 1.03. *Definitions.* Except as otherwise provided in the Grant Agreement, wherever capitalized terms are used in these Standard Conditions or in the Grant Agreement, they have the meanings ascribed to them in these Standard Conditions.

Section 1.04. *References; Headings.* References in these Standard Conditions to Articles and Sections are to the Articles and Sections of these Standard Conditions. Their headings are inserted in these Standard Conditions for reference only and shall not be taken into consideration in interpreting these Standard Conditions.

ARTICLE II

Project Execution

Section 2.01. *Project Execution Generally.* The Recipient shall ensure that:

(a) the Project is carried out: (i) with due diligence and efficiency; (ii) in conformity with appropriate administrative, technical, financial, economic, environmental and social standards and practices; and (iii) in accordance with the provisions of the Grant Agreement, including these Standard Conditions; and

(b) the funds, facilities, services and other resources required for the Project are provided promptly as needed.

Section 2.02. *Insurance.* The Recipient shall ensure that adequate provision is made for the insurance of any goods required for the Project and to be financed out of the proceeds of the Grant, against hazards incident to the acquisition, transportation and delivery of the goods to the place of their use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such goods.

Section 2.03. *Land Acquisition.* The Recipient shall ensure that all action is taken to acquire as and when needed all land and rights to land that are required to carry out the

Project and shall promptly furnish to the World Bank, upon its request, evidence satisfactory to the World Bank that such land and rights are available for the Project.

Section 2.04. *Use of Goods, Works and Services; Maintenance of Facilities.* The Recipient shall ensure that:

(a) except as the World Bank shall otherwise agree, all goods, works and services financed out of the proceeds of the Grant are used exclusively for the purposes of the Project; and

(b) all facilities relevant to the Project are at all times properly operated and maintained and all necessary repairs and renewals of such facilities are made promptly as needed.

Section 2.05. *Documents; Records.* The Recipient shall ensure that:

(a) all documents related to the Project are promptly furnished to the World Bank upon its request, in such detail as the World Bank shall reasonably request;

(b) records are maintained adequate to record the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods, works and services financed out of the proceeds of the Grant and to disclose their use in the Project, and such records are furnished to the World Bank promptly upon its request;

(c) all records evidencing expenditures under the Project are retained until at least: (i) two years after the Closing Date; or (ii) if the World Bank requires audits of the Recipient's Financial Statements pursuant to Section 2.07 (b) below, the later of: (A) one year after the World Bank has received the audited Financial Statements covering the period during which the last withdrawal from the Grant Account was made; and (B) two years after the Closing Date; and

(d) the representatives of the World Bank are able to examine all records referred to above in paragraphs (b) and (c), and are provided all such information concerning such records as they may from time to time reasonably request.

Section 2.06. *Project Monitoring, Reporting and Evaluation.* The Recipient shall:

(a) ensure the maintenance of policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the World Bank, the progress of the Project and the achievement of its objectives; and

(b) if so required in accordance with the provisions of the Grant Agreement:

(i) (A) ensure the preparation and delivery to the World Bank of one or more project reports ("Project Reports"), in form and

substance satisfactory to the World Bank, integrating the results of such monitoring and evaluation activities and setting out measures recommended by the Recipient to ensure the continued efficient and effective execution of the Project, and to achieve the Project's objectives; each Project Report to cover the period specified in the Grant Agreement and to be furnished to the World Bank not later than the date specified for that purpose in the Grant Agreement; and (B) afford the World Bank a reasonable opportunity to exchange views with the Recipient on such report, and thereafter implement such recommended measures, taking into account the World Bank's views on the matter; and

- (ii) ensure the preparation and delivery to the World Bank, not later than the date specified for that purpose in the Grant Agreement, of one or more completion reports ("Completion Reports"): (A) of such scope and in such detail as the World Bank shall reasonably request, on the execution of the Project, the performance by the Recipient and the World Bank of their respective obligations under the Grant Agreement and the accomplishment of the purposes of the Grant; and (B) a plan designed to ensure the sustainability of the Project's achievements.

Section 2.07. *Financial Management; Financial Statements; Audits.* The Recipient shall ensure that:

- (a) a financial management system is maintained and financial statements ("Financial Statements") are prepared in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the Project; and

- (b) if so required in accordance with the provisions of the Grant Agreement:
 - (i) the Financial Statements are periodically audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank; and
 - (ii) the Financial Statements, as so audited, are furnished to the World Bank not later than the date specified in the Grant Agreement for that purpose, together with such other information concerning the audited Financial Statements and such auditors, as the World Bank may from time to time reasonably request.

Section 2.08. *Cooperation and Consultation.* The Recipient and the World Bank shall cooperate fully to assure that the purposes of the Grant and the objectives of the Project will be accomplished, and to this end, throughout the implementation of the Project and for a period of ten years thereafter:

(a) from time to time, at the request of either of them, exchange views on the Project, the Grant, and the performance of their respective obligations under the Grant Agreement, and furnish to the other party all such information related to such matters as it shall reasonably request; and

(b) promptly inform the other party of any condition which interferes with, or threatens to interfere with, such matters.

Section 2.09. *Visits.* The Recipient shall, throughout the implementation of the Project and for a period of ten years thereafter:

(a) if it is the Member Country, enable the representatives of the World Bank to visit any part of its territory for purposes related to the Grant;

(b) if it is not the Member Country, take all measures required on its part to enable the World Bank to visit any part of the Member Country's territory for purposes related to the Grant; and

(c) enable the World Bank's representatives: (i) to visit any facilities and sites included in the Project; and (ii) to examine the goods financed out of the proceeds of the Grant, and any documents relevant to the performance of its obligations under the Grant Agreement.

ARTICLE III

Withdrawal of Grant Proceeds

Section 3.01. *Grant Account; Withdrawals Generally; Currency of Withdrawals.*

(a) The World Bank shall credit the amount of the Grant in the currency of denomination of the Grant to the Grant Account. The Recipient may from time to time request withdrawals of amounts of the Grant from the Grant Account in accordance with the provisions of the Grant Agreement and of these Standard Conditions.

(b) Withdrawals of the proceeds of the Grant from the Grant Account shall be made in the currency of denomination of the Grant. The World Bank may, at the request and acting as an agent of the Recipient, and on such terms and conditions as the World Bank shall determine, purchase with such currency withdrawn from the Grant Account such other currencies as the Recipient shall reasonably request to meet payments for Eligible Expenditures. Whenever it shall be necessary for the purpose of the Grant Agreement or these Standard Conditions to determine the value of one currency in terms of another, such value shall be as reasonably determined by the World Bank.

Section 3.02. *Funding Shortfall.* Notwithstanding the provisions of Section 3.01, no withdrawals shall be made if, as a result of such withdrawal, the total amount of the Grant

withdrawn from the Grant Account would exceed the amount available to the World Bank from resources provided to it for purposes of the Grant.

Section 3.03. *Special Commitment by the World Bank.* At the Recipient's request and on such terms and conditions as the Recipient and the World Bank shall agree, the World Bank may enter into special commitments in writing to pay amounts for Eligible Expenditures notwithstanding any subsequent suspension or cancellation of an amount of the Grant ("Special Commitment").

Section 3.04. *Applications; Supporting Evidence.*

(a) When the Recipient wishes to withdraw an amount from the Grant Account or to request the World Bank to enter into a Special Commitment, the Recipient shall deliver to the World Bank a written application for the purpose in such form and substance as the World Bank shall reasonably request ("Application").

(b) The Recipient shall furnish to the World Bank: (i) evidence satisfactory to the World Bank of the authority of the person or persons authorized to sign each Application and the authenticated specimen signature of each such person; and (ii) such documents and other evidence in support of each Application as the World Bank shall specify, whether before or after the World Bank has permitted any withdrawal requested in the Application ("Supporting Evidence").

(c) Each Application for an amount of the Grant, and its Supporting Evidence, must be sufficient in form and substance to satisfy the World Bank that the Recipient is entitled to withdraw such amount from the Grant Account, and that such amount will be used only for the purposes specified in the Grant Agreement. Applications shall be made promptly in relation to Eligible Expenditures.

(d) The World Bank shall pay the amounts withdrawn by the Recipient from the Grant Account only to, or on the order of, the Recipient.

Section 3.05. *Designated Accounts.*

(a) The Recipient may open and maintain one or more designated accounts into which the World Bank may, at the request of the Recipient, deposit amounts withdrawn from the Grant Account as advances for purposes of the Project ("Designated Accounts"). All Designated Accounts shall be opened in a financial institution acceptable to the World Bank, and on terms and conditions acceptable to the World Bank.

(b) Deposits into, and payments out of, any Designated Account shall be made in accordance with the Grant Agreement and these Standard Conditions and such additional instructions as the World Bank may specify from time to time by notice to the Recipient. The World Bank may, in accordance with the Grant Agreement and such

instructions, cease making deposits into any such account upon notice to the Recipient. In such case, the World Bank shall notify the Recipient of the procedures to be used for subsequent withdrawals from the Grant Account.

Section 3.06. *Eligible Expenditures.* The Recipient shall ensure that the proceeds of the Grant are used exclusively to finance expenditures which, except as otherwise provided in the Grant Agreement, satisfy the following requirements (“Eligible Expenditures”):

(a) the payment is for the reasonable cost of goods, works or services required for the Project, to be financed out of the proceeds of the Grant and procured, all in accordance with the provisions of the Grant Agreement;

(b) the payment is not prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(c) the payment: (i) is made on or after the date specified in the Grant Agreement for that purpose; and (ii) except as the World Bank may otherwise agree, is for expenditures incurred prior to the Closing Date.

Section 3.07. *Financing Taxes.*

(a) The Grant Agreement may specify that the proceeds of the Grant may not be withdrawn to pay for Taxes levied by, or in the territory of, the Member Country on or in respect of Eligible Expenditures, or on their importation, manufacture, procurement or supply. In such case, if the amount of any such Taxes decreases or increases, the World Bank may, by notice to the Recipient, adjust the percentage of such Eligible Expenditures to be financed out of the proceeds of the Grant specified in the Grant Agreement, as required to ensure consistency with such limitation on withdrawals.

(b) In the absence of such specification, the use of any proceeds of the Grant to pay for such Taxes is nevertheless subject to the World Bank’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the World Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the World Bank may, by notice to the Recipient, adjust the percentage of such Eligible Expenditures to be financed out of the proceeds of the Grant specified in the Grant Agreement, as required to ensure consistency with such policy of the World Bank.

Section 3.08. *Reallocation.* If, in the World Bank’s opinion, an amount of the Grant allocated to a category of Eligible Expenditures under the Grant Agreement will be insufficient to finance the expenditures under such category, the World Bank may, by notice to the Recipient:

(a) reallocate to such category any other amount of the Grant which in the World Bank's opinion is not needed for other Eligible Expenditures, to the extent required to meet the estimated shortfall; and

(b) if such reallocation will not fully meet the estimated shortfall, reduce the percentage of Eligible Expenditures to be financed under such category, in order that further withdrawals for such expenditures may continue until all such expenditures have been made.

ARTICLE IV

Cancellation; Suspension; Grant Refund

Section 4.01. *Cancellation by the Recipient.* The Recipient may, by notice to the World Bank, cancel any unwithdrawn amount of the Grant, except that the Recipient may not cancel any such amount that is subject to a Special Commitment.

Section 4.02. *Suspension by the World Bank.* The World Bank may, by notice to the Recipient, suspend the right of the Recipient to make withdrawals from the Grant Account if any of the following events occurs and is continuing. Such suspension shall continue until the World Bank has notified the Recipient that such right to make withdrawals has been restored.

(a) *Interference.* If the Grant has been made to a Recipient which is not the Member Country, the Member Country has: (i) taken or permitted to be taken any action which would prevent or interfere with the execution of the Project or the performance by the Recipient of its obligations under the Grant Agreement; or (ii) failed to afford a reasonable opportunity for representatives of the World Bank to visit any part of its territory for purposes related to the Grant or the Project.

(b) *Performance Failure.* The Recipient has failed to perform any obligation under the Grant Agreement.

(c) *Cross Suspension.* IBRD or IDA has suspended in whole or in part the right of the Recipient (or of the Member Country, if the Recipient is not the Member Country) to make withdrawals under any agreement with IBRD or with IDA because of a failure by the Recipient (or by the Member Country) to perform any of its obligations under such agreement or any other agreement with IBRD or IDA.

(d) *Extraordinary Situation.* As a result of events which have occurred after the date of the Grant Agreement, an extraordinary situation has arisen which makes it improbable that the Project can be carried out or that the Recipient will be able to perform its obligations under the Grant Agreement.

(e) *Misrepresentation.* A representation made by the Recipient in or pursuant to the Grant Agreement, or any representation or statement furnished by the Recipient and intended to be relied upon by the World Bank in making the Grant, was incorrect in any material respect.

(f) *Assignment of Obligations; Disposition of Assets.* The Recipient (or any other entity responsible for implementing any part of the Project) has, without the consent of the World Bank: (i) assigned or transferred, in whole or in part, any of its obligations arising under or entered into pursuant to the Grant Agreement; or (ii) sold, leased, transferred, assigned, or otherwise disposed of any property or assets financed wholly or in part out of the proceeds of the Grant; provided, however, that the provisions of this paragraph shall not apply with respect to transactions in the ordinary course of business which, in the opinion of the World Bank: (A) do not materially and adversely affect the ability of the Recipient (or such other entity) to perform any of its obligations arising under or entered into pursuant to the Grant Agreement or to achieve the objectives of the Project; and (B) if the Grant has been made to a Recipient which is not the Member Country, do not materially and adversely affect the financial condition or operation of the Recipient (or such other entity).

(g) *Membership.* The Member Country: (i) has been suspended from membership in or ceased to be a member of IBRD or of IDA; or (ii) has ceased to be a member of the International Monetary Fund.

(h) *Condition of Recipient.* If the Grant has been made to a Recipient which is not the Member Country:

- (i) Any action has been taken for the dissolution, disestablishment or suspension of operations of the Recipient (or of any other entity responsible for implementing any part of the Project).
- (ii) The Recipient (or any other entity responsible for implementing any part of the Project) has ceased to exist in the same legal form as that prevailing as of the date of the Grant Agreement.
- (iii) In the opinion of the World Bank, the legal character, ownership or control of the Recipient (or of any other entity responsible for implementing any part of the Project) has changed from that prevailing as of the date of the Grant Agreement so as to materially and adversely affect the ability of the Recipient (or such other entity) to perform any of its obligations arising under or entered into pursuant to the Grant Agreement, or to achieve the objectives of the Project.

(i) *Additional Event.* Any other event specified in the Grant Agreement for the purposes of this Section has occurred (“Additional Event of Suspension”).

Section 4.03. *Cancellation by the World Bank.* The World Bank may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to an unwithdrawn amount of the Grant, and cancel such amount, if any of the following events occurs with respect to such amount:

(a) *Suspension.* The right of the Recipient to make withdrawals from the Grant Account has been suspended with respect to any amount of the Grant for a continuous period of thirty days.

(b) *Amounts not Required.* The World Bank determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance Eligible Expenditures.

(c) *Misprocurement; Fraud and Corruption.* The World Bank: (i) determines, with respect to any contract to be financed out of the proceeds of the Grant, that (A) the procurement of such contract is inconsistent with the procedures set forth or referred to in the Grant Agreement; or (B) corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient (or the Member Country, if the Recipient is not the Member Country, or other recipient of the Grant proceeds) during the procurement or the execution of such contract, without the Recipient (or Member Country or other such recipient) having taken timely and appropriate action satisfactory to the World Bank to remedy the situation; and (ii) establishes the amount of expenditures under such contract which would otherwise have been eligible for financing out of the proceeds of the Grant.

(d) *Closing Date.* After the Closing Date, there remains an unwithdrawn amount of the Grant.

Section 4.04. *Amounts Subject to Special Commitment Unaffected.* No cancellation or suspension by the World Bank shall apply to amounts subject to any Special Commitment, except as expressly provided in the Special Commitment.

Section 4.05. *Grant Refund.*

(a) If the World Bank determines that an amount of the Grant has been used in a manner inconsistent with the provisions of the Grant Agreement or these Standard Conditions, the Recipient shall, upon notice by the World Bank to the Recipient, promptly refund such amount to the World Bank. Such inconsistent use shall include, without limitation, use of such amount to: (i) make a payment for an expenditure that is not an Eligible Expenditure; or (ii) finance a contract during the procurement or execution of which corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient (or the Member Country, if the Recipient is not the Member Country, or other recipient of such amount of the Grant), without the Recipient

(or Member Country or other such recipient) having taken timely and appropriate action satisfactory to the World Bank to remedy the situation.

(b) Except as the World Bank may otherwise determine, the World Bank shall cancel all amounts refunded pursuant to this Section.

Section 4.06. *Continued Effectiveness.* Notwithstanding any cancellation, suspension or refund under this Article, all the provisions of the Grant Agreement shall continue in full force and effect, except as specifically provided in these Standard Conditions.

ARTICLE V

Enforceability; Arbitration

Section 5.01. *Enforceability.* The rights and obligations of the Recipient and the World Bank under the Grant Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any state or of any of its political subdivisions to the contrary. Neither the Recipient nor the World Bank shall be entitled in any proceeding under this Article to assert any claim that any provision of these Standard Conditions or of the Grant Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of IBRD or IDA, as the case may be.

Section 5.02. *Failure to Exercise Rights.* No delay in exercising, or omission to exercise, any right, power or remedy accruing to any party under the Grant Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 5.03. *Arbitration.* Any controversy between the parties to the Grant Agreement and any claim by any such party against the other arising under the Grant Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an arbitral tribunal (“Arbitral Tribunal”) as hereinafter provided.

(a) The parties to such arbitration shall be the World Bank on the one side and the Recipient on the other side.

(b) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: (i) one arbitrator shall be appointed by the World Bank; (ii) a second arbitrator shall be appointed by the Recipient; and (iii) the third arbitrator (“Umpire”) shall be appointed by agreement of the parties or, if they do not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations. If either side fails to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section resigns, dies or becomes unable to act, a successor arbitrator shall be appointed in

the same manner as prescribed in this Section for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(c) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(d) If, within sixty days after the notice instituting the arbitration proceeding, the parties have not agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (b) of this Section.

(e) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(f) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(g) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of the Arbitral Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Grant Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(h) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as are required for the conduct of the arbitration proceedings. If the parties do not agree on such amount before the Arbitral Tribunal convenes, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(i) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the Grant

Agreement or of any claim by any such party against the other such party arising under the Grant Agreement.

(j) If, within thirty days after counterparts of the award have been delivered to the parties, the award has not been complied with, any party may: (i) enter judgment upon, or institute a proceeding to enforce, the award in any court of competent jurisdiction against any other party; (ii) enforce such judgment by execution; or (iii) pursue any other appropriate remedy against such other party for the enforcement of the award and the provisions of the Grant Agreement. Notwithstanding the foregoing, if the Recipient is the Member Country, this Section shall not authorize any entry of judgment or enforcement of the award against the Recipient except as such procedure may be available otherwise than by reason of the provisions of this Section.

(k) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 7.01. The parties to the Grant Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE VI

Effectiveness; Termination

Section 6.01. *Effectiveness.* Unless otherwise specified in the Grant Agreement, the Grant Agreement shall become effective on the date as of which it has been executed by all parties to the Grant Agreement.

Section 6.02. *Termination.* The Grant Agreement and all obligations of the parties under it shall forthwith terminate when all such obligations have been fully performed.

ARTICLE VII

Miscellaneous

Section 7.01. *Notices and Requests.* Any notice (or request) pursuant to the Grant Agreement shall be in writing. Such notice (or request) shall be deemed to have been duly given (or made) when it has been delivered by hand or by mail, telex or facsimile (or, if permitted under the Grant Agreement, by other electronic means) to the party to which such notice (or request) is directed (“Addressee”), at the address specified in the Grant Agreement for the purpose (or at such other address as the Addressee shall have designated by notice to the party giving such notice or making such request) (“Address”). Deliveries made by facsimile transmission shall also be confirmed by mail.

Section 7.02. *Action on Behalf of the Recipient.* The representative designated by the Recipient in the Grant Agreement, for the purpose of this Section (or any person

authorized in writing by such representative for the purpose) (“Recipient’s Representative”), may take any action required or permitted to be taken pursuant to the Grant Agreement, and execute any documents required or permitted to be executed pursuant to the Grant Agreement on behalf of the Recipient.

Section 7.03. *Evidence of Authority.* The Recipient shall furnish to the World Bank: (a) sufficient evidence of the authority of the Recipient’s Representative; and (b) the authenticated specimen signature of such representative.

Section 7.04. *Execution in Counterparts.* The Grant Agreement may be executed in several counterparts, each of which shall be an original.

Section 7.05. *Disclosure.* The World Bank may make the Grant Agreement and any information related to the Grant Agreement publicly available in accordance with its policy on disclosure of information, in effect at the time of such disclosure.

APPENDIX**Definitions**

1. “Additional Event of Suspension” means any event of suspension specified in the Grant Agreement for the purpose of Section 4.02 (i).
2. “Address” means the address of the Addressee referred to in Section 7.01, to which notices and requests pursuant to the Grant Agreement are to be directed.
3. “Addressee” means the party to which notices and requests are to be directed for the purpose of Section 7.01.
4. “Application” means an application made by the Recipient pursuant to Section 3.04 for withdrawal of an amount of the Grant from the Grant Account or to request the World Bank to enter into a Special Commitment with respect to an amount of the Grant.
5. “Arbitral Tribunal” means the arbitral tribunal established pursuant to Section 5.03.
6. “Closing Date” means the date specified in the Grant Agreement (or such later date as the World Bank shall establish by notice to the Recipient) after which the World Bank may, by notice to the Recipient, terminate the right of the Recipient to withdraw from the Grant Account.
7. “Completion Report” means each report to be prepared and furnished to the World Bank pursuant to Section 2.06 (b) (ii).
8. “Designated Account” means each account referred to in Section 3.05 into which the Bank may deposit amounts withdrawn from the Grant Account as advances for purposes of the Project.
9. “Dollar”, “\$” and “USD” each means the lawful currency of the United States of America.
10. “Eligible Expenditure” means an expenditure the payment for which meets the requirements of Section 3.06 and which is consequently eligible for financing out of the proceeds of the Grant.
11. “Financial Statements” means the financial statements to be maintained for the Project in accordance with Section 2.07.
12. “Grant” means the grant provided for in the Grant Agreement.

13. “Grant Account” means the account opened by the World Bank in its books in the name of the Recipient to which the Grant is credited in accordance with Section 3.01 (a).
14. “Grant Agreement” means the grant agreement between the Recipient and the World Bank providing for the Grant, as such agreement may be amended from time to time. “Grant Agreement” includes these Standard Conditions as applied to the Grant Agreement, and all appendices, schedules and agreements supplemental to the Grant Agreement.
15. “IBRD” means the International Bank for Reconstruction and Development.
16. “IDA” means the International Development Association.
17. “Member Country” means the member of the World Bank in whose territory the Project is carried out or any of such member’s political or administrative subdivisions. If the Grant is extended by the World Bank to such member as a party to the Grant Agreement, the term “Member Country” and “Recipient” refer to the same entity
18. “Project” means the project described in the Grant Agreement, for which the Grant is made, as the description of such project may be amended from time to time by agreement between the Recipient and the World Bank.
19. “Project Report” means each report on the Project to be prepared and furnished to the World Bank for the purpose of Section 2.06 (b) (i).
20. “Recipient” means the party to the Grant Agreement to which the Grant is made.
21. “Recipient’s Representative” means the representative referred to in Section 7.02 designated by the Recipient in the Grant Agreement or authorized in writing by such representative for the purpose of such Section.
22. “Special Commitment” means any special commitment entered into or to be entered into by the World Bank pursuant to Section 3.03.
23. “Supporting Evidence” means the evidence and documents to be furnished to the World Bank in accordance with Section 3.04 (b) in connection with an Application.
24. “Taxes” includes imposts, levies, fees and duties of any nature, whether in effect at the date of the Grant Agreement or imposed after that date.
25. “Umpire” means the third arbitrator appointed pursuant to Section 5.03 (b).

26. "World Bank" means: (a) IBRD if the Grant is made or administered by IBRD; (b) IDA if the Grant is made or administered by IDA; and (c) collectively, IBRD and IDA if the Grant is made or administered by both IBRD and IDA.