

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF053183-CHA

Global Environment Facility Trust Fund Grant Agreement

(Hai Basin Integrated Water and Environment Management Project)

between

People's Republic of China

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated June 30, 2004

GEF TRUST FUND GRANT NUMBER TF053183-CHA

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 30, 2004, between PEOPLE'S REPUBLIC OF CHINA ("the Recipient") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("the Bank"), acting as an implementing agency of the Global Environment Facility ("GEF") in respect of grant funds provided to the GEF Trust Fund by certain members of the Bank as participants of the GEF.

WHEREAS (A) the Bank, pursuant to Resolution No. 91-5 of March 14, 1991 of the Executive Directors of the Bank, established the GEF to assist in the protection of the global environment and promote thereby, environmentally sound and sustainable economic development;

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

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

(D) Parts A.1(e), A.2(a), A.3, C and D of the Project will be carried out by Beijing Municipality, Hebei Province and Tianjin Municipality with the Recipient's assistance and, as part of such assistance, the Recipient will make available to Beijing Municipality, Hebei Province and Tianjin Municipality, part of the proceeds of the GEF Trust Fund Grant as provided in this Agreement; and

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

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through October 6, 1999), 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 (but excluding Sections 2.01(1), (10), (11), (12), (13), (15), (17) and (20)), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01, 4.02(a) and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (but excluding 6.02(b) 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 (c), 12.02 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;

- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account; and
- (vi) a new subparagraph is added after subparagraph (j) in Section 6.02 of the General Conditions, as follows: “an extraordinary situation shall have arisen in which any further disbursement under the GEF Trust Fund Grant would exceed the resources available for disbursement from the GEF.”

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) “Allocated Amount” means, in respect of each Project Participant, the amount of the GEF Trust Fund Grant allocated from time to time to such Project Participant and as set forth in Schedule 1 to this Agreement.

(b) “Beijing” means Recipient’s Beijing Municipality and any successor thereto.

(c) “Displaced Person” means a person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by:

- (i) the involuntary taking of land, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or
- (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person,

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

(d) “Environmental Management Plan” means the Environmental Management Plan dated January 2004 duly adopted by the Recipient’s Ministry of Water Resources and State Environmental Protection Administration and referred to in paragraph 8 of Schedule 2 to the Project Agreement, which sets out environmental

protection measures to be taken in respect of the Project, as well as the administrative and monitoring arrangements to ensure the implementation of said measures.

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

(f) “Hai Basin Commission” means a commission established within the Recipient’s Ministry of Water Resources and responsible for river basin planning, flood control and water allocation, and any successor thereto.

(g) “Hebei” means the Recipient’s Province of Hebei and any successor thereto.

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

(i) “MWR” means the Recipient’s Ministry of Water Resources and any successor thereto.

(j) “Project Agreement” means the agreement of even date herewith between the Bank and Beijing Municipality, Hebei Province and Tianjin Municipality, as such agreement may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.

(k) “Project Participants” means, collectively, Beijing, Hebei and Tianjin; and “Project Participant” means any of such Project Participants.

(l) “PMOs” means, collectively:

- (i) the MWR PMO and SEPA PMO referred to in paragraph 1(c) of Schedule 4 to this Agreement;
- (ii) the Hai Basin Commission PMO referred to in paragraph 1(d) of Schedule 4 to this Agreement;
- (iii) the Zhangweinan Sub-basin PMO referred to in paragraph 1(e) of Schedule 4 to this Agreement;
- (iv) the Beijing PMO referred to in paragraph 1(b) of Schedule 2 to the Project Agreement;
- (v) the Hebei PMO referred to in paragraph 1(c) of Schedule 2 to the Project Agreement; and

- (vi) the Tianjin PMOs referred to in paragraph 1(d) of Schedule 2 to the Project Agreement,

and “PMO” means any of such PMOs.

- (m) “Respective Parts of the Project” means in respect of:

- (i) Recipient, Parts A.1(a), A.1(b), A.1(c), A.1(d), A(2)(b), A.3, B and D of the Project;
- (ii) Beijing Parts A.1(e), A.2(a), A.3 and D of the Project;
- (iii) Hubei, Parts A.2(a), A.3 and D of the Project; and
- (iv) Tianjin, Parts A.2(a) and C and D of the Project.

(n) “Resettlement Policy Framework” means the Policy Framework for Resettlement and Land Acquisition, dated January 2004 adopted by the Recipient’s Ministry of Water Resources and State Environmental Protection Administration, and referred to in paragraph 7 of Schedule 2 to the Project Agreement, which sets out the policies and procedures for land acquisition, resettlement, compensation and rehabilitation of Displaced Persons, and for the preparation of resettlement action plans whenever required during the implementation of the Project, as said Policy Framework may be revised from time to time with the prior agreement of the Bank.

(o) “STUDEP” Loan Agreement means the Loan Agreement dated July 10, 2003, between the Recipient and the Bank for the implementation of Second Tianjin Urban Development and Environment Project (Loan Number 4695-CHA).

(p) “SEPA” means the Recipient’s State Environmental Protection Administration and any successor thereto.

(q) “Small City” means a small city to which Tianjin proposes to make, or has made a Small City Sub-grant.

(r) “Small City Incentive Program Manual” means the manual referred to in paragraph 11 of Schedule 2 to the Project Agreement and paragraph 3(b) of Schedule 1 to this Agreement, which manual will set out the criteria, principles and procedures to be applied in implementing the small city incentive program under Part C.2 of the Project.

(s) “Small City Incentive Sub-grant” means a grant made, or proposed to be made by Tianjin, out of the proceeds of the GEF Trust Fund Grant, to a Small City for financing, in part, a Small City Incentive Sub-project; and “Small City Incentive Sub-grants” means, collectively, all such Small City Incentive Sub-grants.

(t) “Small City Incentive Sub-grant Agreement” means the agreement to be entered into between Tianjin and an eligible Small City in accordance with the provisions of paragraph 11(b) of Schedule 2 to the Project Agreement for carrying out a Small City Incentive Sub-Project; and “Small City Incentive Sub-grant Agreements” means, collectively, all such Small City Incentive Sub-grant Agreements.

(u) “Small City Incentive Sub-project” means a specific project selected by Tianjin for financing under Part C.2 of the Project in accordance with the provisions of paragraphs 11 and 12 of Schedule 2 to the Project Agreement; and “Small City Incentive Sub-projects” means, collectively, all such Small City Incentive Sub-projects.

(v) “Special Accounts” means the four accounts referred to in Section 2.02(b) of this Agreement; and “Special Account” means any of such Special Accounts.

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

(x) “Zhangweinan Sub-basin” means the areas of the Provinces of Hebei, Henan, Shandong and Shanxi and Tianjin Municipality from which the surface water drains into the Zhangweinan Canal.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference to Beijing, Hebei and Tianjin.

ARTICLE II

The GEF Trust Fund Grant

Section 2.01. The Bank agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the GEF Trust Fund Grant in an amount equal to seventeen million Dollars (US\$17,000,000).

Section 2.02. (a) The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for carrying out the Project and to be financed out of the proceeds of the GEF Trust Fund Grant; and (ii) amounts paid (or, if the Bank shall so agree, to be paid) on account of a Small City Incentive Sub-grant to meet the reasonable cost of goods, works and services required for a Small City Incentive Sub-project and in respect of which withdrawal from the GEF Trust Fund Grant Account is requested.

(b) The Recipient may, for purposes of the Project, open and maintain in Dollars the following four (4) separate special deposit accounts in a commercial bank

acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment:

- (i) one Special Account for Parts A.1(a), A.1(b), A.1(c), A.1(d), A(2)(b), A.3, B and D of the Project (“Recipient Special Account”);
- (ii) one Special Account for Parts A.1(e), A.2(a), A.3 and D of the Project (“Beijing Special Account”);
- (iii) one Special Account for Parts A.2(a), A.3, and D of the Project (“Hebei Special Account”); and
- (iv) one Special Account for Parts A.2(a), C and D of the Project (“Tianjin Special Account”).

Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2010, or such later date as the Bank shall establish. The Bank shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement:

- (i) shall carry out Parts A.1(a), A.1(b), A.1(c), A.1(d), A(2)(b), A.3, B and D of the Project through MWR and SEPA;
- (ii) shall cause Beijing to carry out Part A.1(e), Beijing and Hebei to carry out Parts A.2(a), A.3 and D of the Project, and Tianjin to carry out Parts A.2(a), C and D of the Project, each in accordance with the provisions of the Project Agreement,

all with due diligence and efficiency and in conformity with appropriate administrative, management, financial, and engineering practices and social and environmental standards acceptable to the Bank and shall take, or cause to be taken, all action (including the provision of funds, facilities, services and other resources) necessary or appropriate to enable MWR, SEPA, and the Project Participants to perform such obligations, and shall

not take or permit to be taken any action that would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a)(i) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out Parts A.1(a), A.1(b), A.1(c), A.1(d), A.2(b), A.3, B and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) For purposes of carrying out Parts A.1(e), A.2(a), A.3, C and D of the Project, the Recipient shall make the Allocated Amount available to the respective Project Participant on a grant basis, without deduction of any charge, commission or fee of any kind from the GEF Trust Fund Grant and in accordance with arrangements satisfactory to the Bank.

Section 3.02. Except as the Bank shall otherwise agree, procurement of goods, works and consultants' services required for:

(a) the Recipient's Respective Parts of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement; and

(b) the Project Participant's Respective Parts of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to the Project Agreement.

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

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a consolidated plan (integrating the information provided in the plans submitted by the Project Participants pursuant to Section 2.03(b) of the Project Agreement) for the continued achievement of the objectives of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Recipient and the Project Participants on said consolidated plan.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in

accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

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

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

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Bank, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the reporting obligations set out in paragraph 17 Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Bank a consolidated financial monitoring report (integrating the information provided in the reports submitted by the Project Participants pursuant to Section 3.01(b) of the Project Agreement), in form and substance satisfactory to the Bank, which sets forth sources and

uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explains variances between the actual and planned uses of such funds.

(b) The first such financial monitoring report shall be furnished to the Bank not later than 45 days after the end of the first calendar semester after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar semester; thereafter, each financial monitoring report shall be furnished to the Bank not later than 45 days after each subsequent calendar semester, and shall cover such calendar semester.

ARTICLE V

Remedies of the Bank

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

(a) Either Beijing, Hebei or Tianjin shall have failed to perform any of its respective obligations under the Project Agreement.

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

ARTICLE VI

Effectiveness; Termination, Public Disclosure

Section 6.01. The following is specified as an additional matter, within the meaning of Section 12.02(c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely, the Project Agreement has been duly authorized or ratified by each of the Project Participants and is legally binding upon each of the Project Participants in accordance with its terms.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

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

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

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

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

For the Recipient:

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

Facsimile:

(86-10) 68 55 11 25

For the Bank :

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

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(1-202) 477-6391

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

PEOPLE'S REPUBLIC OF CHINA

By /s/ Xiaoyu Zhao

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By /s/ Yukon Huang

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

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

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Works for:		
(a) Recipient	966,200)
(b) Beijing	284,600)
(c) Hebei	578,400	) 50%
(d) Tianjin	91,000)
(2) Goods for:		
(a) Recipient	1,004,500	) 100% of foreign expenditures,
(b) Beijing	483,800	) 100% of local expenditures
(c) Hebei	507,100	) (ex-factory cost) and 75% of
(d) Tianjin	1,373,600	) local expenditures for other
		) items procured locally
(3) Consultants' services for:		
(a) Recipient	4,153,700	) 41% of expenditures for
(b) Beijing	1,027,200	) services of local consultants
(c) Hebei	630,800	) and 91% of expenditures for
(d) Tianjin	1,801,700	) services of foreign
		) consultants

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
(4) Training and study tours for:		
(a) Recipient	975,600	) 70% of expenditures for
(b) Beijing	154,400	) overseas training and study
(c) Hebei	233,700	) tours and 50% of expenditures
(d) Tianjin	233,700	) for domestic training and study
		) tours
(5) Small City Incentive Sub-grants	2,500,000	100% of the amount of Small City Sub-grants disbursed
TOTAL	<u>17,000,000</u>	

2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures that are not foreign expenditures.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of \$956,700, may be made in respect of Categories (1), (2), (3) and (4) on account of payments made for expenditures before that date but after December 8, 2003.

(b) expenditures under Category 5 set forth in the table of paragraph 1 of this Schedule, until the Bank shall have received evidence, satisfactory to the Bank, that a Small City Incentive Program Manual, satisfactory to the Bank, has been adopted by

Tianjin in accordance with the provisions of paragraph 11 of Schedule 2 to the Project Agreement.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) works under contracts costing less than \$500,000 equivalent each; (b) goods under contracts costing less \$200,000 equivalent each; (c) consultants' services under contracts with firms costing less than \$200,000 equivalent each; (d) consultants' services under contracts with individuals costing less than \$50,000 equivalent each; (e) training and study tours; and (f) Small City Incentive Sub-grants, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. If the Bank shall have determined at any time that any payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Bank, refund to the Bank for deposit into the GEF Trust Fund Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in reducing pollution in the Bohai Sea by developing an integrated approach to water resource management and pollution control in the Hai Basin.

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

Part A: Integrated Water and Environment Management

1. Carry out the following studies focused on primary areas of concern at the Hai Basin level:

(a) A study analyzing the legal, policy and institutional frameworks governing water resource management and water pollution control in the Hai Basin and identifying barriers to and developing practical solutions for coordination among various government ministries (in particular, MWR and SEPA) to facilitate integrated water and environment management at the basin and local levels.

(b) Studies: (i) evaluating the linkage between the environmental condition of the Bohai Sea and Bohai Bay and developing spatial and temporal pollutant control actions to maximize beneficial effects on the Bohai Sea and actions to maximize ecological benefits in the receiving marine environment; and (ii) with respect to the Hai River that evaluate and develop recommendations on the minimum flows, the scheduling of flows, and water quality requirements necessary to maintain the environmental functions of wetlands in the river.

(c) Studies: (i) analyzing water balance in the Hai Basin necessary to support a sustainable river-aquifer system; (ii) evaluating factors that affect water savings and high efficiency water utilization (including examination of existing water rights and well permit systems); and (iii) analyzing the management of wastewater and re-use of treated wastewater.

(d) A study analyzing factors that inhibit reduction of pollution levels in the Hai River and developing a basin-wide action plan for pollution control.

(e) A study analyzing water use in Beijing and developing a plan to limit water usage to the amount of water available.

2. (a) Based on the results of the studies carried out under Part A.1 of the Project, develop Integrated Water and Environment Management Plans ("IWEMPs"),

including a long term government investment plan, for Tianjin and for selected counties in Beijing and Hebei.

(b) Develop a Strategic Action Plan (“SAP”), including a long term government investment plan, for the Zhangweinan sub-basin, with specific focus on water pollution and a SAP for the Hai Basin, with specific focus on capacity building and integrated management; each SAP to identify actions to reduce water consumption and water pollution, to improve coordination among different agencies, and to establish improved water management arrangements at the local level.

3. Carry out programs in selected counties in Beijing, Hebei and Zhangweinan to demonstrate the management and addressing of complex issues, including effective control of wastewater discharge, pollution control combined with environmental improvements, real water savings techniques and management, and effective management of water rights and well permits and carry out the initial phases of IWEMPs.

Part B: Knowledge Management

1. Develop a sustainable and integrated system to manage water resources and water quality information at the basin level, which system may be applied, on an integrated basis, at the basin and local levels and provides direct support for evapotranspiration-based water management.

2. Design an evapotranspiration management system that will eliminate groundwater overdraft and provide more surface water for ecological purposes.

Part C: Tianjin Coastal Wastewater Management

1. Carry out in Tianjin a comprehensive study on wastewater management in cities, which have been selected under Part E of the project described in Schedule 2 to the STUDEP Loan Agreement or selected in agreement with the Bank, to evaluate the institutional and financial arrangements and technical aspects of said management, to analyze the control of pollution by industries and to study the appropriateness and adequacy of the wastewater collection networks.

2. Design and test a program of financial incentives for small cities (directly or indirectly through contractors) in Tianjin to manage their wastewater through the provision of sub-grants for specific sub-projects to collect and treat wastewater.

3. Provide technical assistance to assist in the design and implementation of the rehabilitation of Dagu Canal under Part D of the project described in Schedule 2 to the STUDEP Loan Agreement.

4. Carry out a study on industrial pollution control in the Dagu Canal watershed and develop recommendations to prevent (including improvement of pollution monitoring)

and address such pollution (including pre-treatment of industrial discharges into the canal).

Part D: Project Management and Training

1. Carry out a program to strengthen the implementation capacity (in particular, capacity to implement the technical aspects of the Project) of Project management offices and to promote coordination and integration of Project implementation activities among various levels of government.
2. Carry out workshops and training to exchange and disseminate information compiled and experience gained during Project implementation.

The Project is expected to be completed by December 31, 2009.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient. (other than goods manufactured in the Hong Kong Special Administrative Region or the Macau Special Administrative Region of the Recipient).

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) The following may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines: (i) works estimated to cost less than \$15,000,000 equivalent per contract; and (ii) goods estimated to cost less than \$500,000 equivalent per contract.

(b) The procedures to be followed for National Competitive Bidding under Part C.1 of this Section shall be those set forth in the Law on Tendering and Bidding of the People's Republic of China promulgated by Order No. 21 of the President of the People's Republic of China on August 30, 1999, with the following clarifications required for compliance with the Guidelines:

(i) All invitations to prequalify or to bid shall be advertised in a newspaper of national circulation in China and such

advertisement shall be made in sufficient time for prospective bidders to obtain prequalification or bidding documents and prepare and submit their responses. In any event, a minimum of thirty (30) days shall be given to bidders between the date of advertisement in such newspaper and the deadline for submission of bids, and the advertisement and bidding documents shall specify the deadline for such submission.

- (ii) Qualification requirements of bidders and the method of evaluating the qualification of each bidder shall be specified in detail in the bidding documents.
- (iii) All bidders shall be required to provide security in an amount sufficient to protect the Recipient, in case of breach of contract by the contractor, and the bidding documents shall specify the required form and amount of such security.
- (iv) The time for opening of all bids shall be the same as the deadline for receipt of such bids.
- (v) All bids shall be opened in public; all bidders shall be afforded an opportunity to be present (either in person or through their representatives) at the time of bid opening, but bidders shall not be required to be present at the bid opening.
- (vi) No bid may be rejected solely on the basis that the bid price falls outside any standard contract estimate, or margin or bracket of average bids established by the Recipient.
- (vii) Each contract shall be awarded to the lowest evaluated responsive bidder, that is, the bidder who meets the appropriate standards of capability and resources and whose bid has been determined (A) to be substantially responsive to the bidding documents and (B) to offer the lowest evaluated cost. The winning bidder shall not be required, as a condition of award, to undertake responsibilities for work not stipulated in the bidding documents or otherwise to modify the bid as originally submitted.
- (viii) Each contract financed with the proceeds of the GEF Trust Fund Grant shall provide that the suppliers and contractors shall permit the Bank, at its request, to inspect their accounts and records relating to the performance of the contract and to have said accounts and records audited by auditors appointed by the Bank.

2. International and National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,300,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) The procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply to the following contracts:

- (i) each contract for goods estimated to cost the equivalent of \$200,000 or more;
- (ii) the first contract for goods procured by each of the PMOs in accordance with the provisions of paragraph 1 of Part C above (National Competitive Bidding);
- (iii) each contract for works estimated to cost the equivalent of \$500,000 or more; and

- (iv) the first contract for works procured by each of the PMOs in accordance with the provisions of paragraph 1 of Part C above (National Competitive Bidding).

(b) The following procedures shall apply with respect to the first contract for goods procured by each of the PMOs in accordance with the provisions of paragraph 2 of Part C above (International and National Shopping) and the first contract for works procured by each of the PMOs in accordance with the provisions of paragraph 3 of Part C above (Small Works):

- (i) prior to the selection of any supplier, the Recipient shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Recipient shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Recipients" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 ("the Consultant Guidelines") and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

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

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph.

The short list of consultants estimated to cost less than \$300,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services to carry out the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

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

3. Single Source Selection

Services relating to the use of complex software for estimating evapotranspiration using satellite imagery to be carried out under Part B.2 of the Project, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

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

1. Selection Planning

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

2. Prior Review

(a) The procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply to the following contracts for the employment of consulting firms:

- (i) each contract estimated to cost the equivalent of \$200,000 or more;
- (ii) the first contract procured by each of the PMOs in accordance with the provisions of Part B above (quality- and cost-based selection);
- (iii) the first contract procured by each of the PMOs in accordance with the provisions of paragraph 1 of Part C above (quality-based selection);
- (iv) the first contract procured by each of the PMOs in accordance with the provisions of paragraph 2 of Part C above (consultants' qualifications-based selection); and
- (v) all contracts procured in accordance with the provisions of paragraph 3 of Part C above (single source selection).

(b) With respect to the following contracts for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval and the contract shall be awarded only after said approval shall have been given:

- (i) each contract estimated to cost the equivalent of \$50,000 or more; and
- (ii) the first contract procured by each of the PMOs.

3. Post Review

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

SCHEDULE 4

Implementation Program

Project Management and Coordination

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

(a) the Project Coordinating Committee, with representation from MOF, MWR, SEPA and each of the Project Participants, to be responsible for overall coordination of Project activities among the implementing agencies of the Recipient and Project Participants;

(b) the Project Steering Committees established within each of MWR and SEPA, to be responsible for overall coordination of implementation of Recipient's Respective Parts of the Project;

(c) the Project Management Offices established within each of MWR and SEPA ("MWR PMO" and "SEPA PMO" respectively), to be responsible for the overall implementation of the Recipient's Respective Parts of the Project;

(d) the Project Management Office ("Hai Basin Commission PMO") and Project Leading Group, both established within the Hai Basin Commission to be responsible, respectively, for the implementation of the Recipient's Respective Parts of the Project and the coordination and overseeing of the implementation of the Recipient's Respective Parts of the Project in the Hai Basin;

(e) the Project Management Office ("Zhangweinan Sub-basin PMO") established within the Zhangweinan Sub-basin Management Bureau and Project Leading Group led by SEPA and MWR to be responsible, respectively, for the implementation of the Recipient's Respective Parts of the Project and for the coordination and overseeing of the implementation of the Recipient's Respective Parts of the Project in the Zhangweinan Sub-basin area; and

(f) the Joint Expert Groups established at the central government and river basin levels to be responsible for providing technical assistance to the Project Management Offices referred to in subparagraphs (c), (d) and (e) of this paragraph.

2. With respect to the implementation of the Project in the Zhangweinan Sub-basin, the Recipient shall cause each of the demonstration counties within the Provinces of Henan, Shandong and Shanxi that are participating in the Project to maintain the following organizations, with terms of reference, staffing and other resources acceptable to the Bank, throughout the period of implementation of the Project:

(a) a Coordination Group, led by the demonstration county government's Finance Bureau, to be responsible for overall coordination of implementation of the Project within the county; and

(b) a Project Management Office to be responsible for implementation of the Project within the demonstration county.

3. By June 30, 2004, the Recipient, through the Hai Basin Commission PMO and Zhangweinan Sub-basin PMO, shall establish, and thereafter maintain, a knowledge management group with membership and terms of reference satisfactory to the Bank, including the responsibility to assist in the management and dissemination of water- and environment-related data and information needed to effectively implement the Project.

Coordination between Water and Environment Departments

4. With respect to Part A.1(a) of the Project, the Recipient shall:

(a) by June 30, 2004, furnish to the Bank a time-bound action plan, prepared according to terms of reference satisfactory to the Bank, for the development, establishment and implementation of institutional mechanisms to ensure coordination and cooperation between the agencies responsible for: the management of water resources; and for environmental protection, all at the central government, river basin, provincial, municipality and county levels;

(b) afford the Bank a reasonable opportunity to exchange views with MWR and SEPA on said plan;

(c) thereafter, issue said plan as an official document for implementation by the PMOS and promptly implement said plan and cause said plan to be implemented, taking into account the Bank's comments thereon; and

(d) by June 30 of each year, furnish to the Bank an update of the said plan and thereafter, take into account the Bank's comments on such update when implementing the plan.

5. By June 30, 2004, the Recipient shall have employed a coordinator (with experience, qualifications and terms of reference acceptable to the Bank) to be responsible for coordinating activities to be carried out by the Water Bureau and Environment Bureau of the various levels of government implementing the Project in the Zhangweinan Sub-basin.

Effective and Efficient Implementation

6. (a) Commencing in year 2004 the Recipient, through the Joint Expert Group at the central government level, shall:

- (i) carry out every year two (2) supervision missions, in coordination with the Bank to evaluate the implementation of the Project; and
- (ii) furnish to the Bank, within one (1) week after the end of each mission, a report on its findings and recommendations, which report shall be prepared in accordance with terms of reference acceptable to the Bank.

(b) Commencing in year 2004 the Recipient, through the Joint Expert Group at the central government level, shall convene a meeting after each Bank supervision mission, with the participation of SEPA PMO, MWR PMO and relevant departments to discuss the Bank's written assessment of the implementation of the Project, develop and furnish to the Bank an action plan addressing issues raised in said assessment and thereafter, implement said plan, taking into account the Bank's comments thereon.

(c) By October 31, 2005, the Recipient shall review with the Bank the previous reports of its findings and recommendations and plans furnished to the Bank pursuant to subparagraphs (a) and (b) of this paragraph and, thereafter, cause MWR and SEPA to take all measures required to ensure the effective and efficient implementation and completion of the Project, taking into account the Bank's comments thereon.

Workshops

7. The Recipient shall carry out at least four (4) workshops a year, in accordance with terms of reference satisfactory to the Bank, to facilitate coordination and integration of activities being carried out under the Project, including: (a) cross-sectoral cooperation and coordination of actions between agencies that are responsible for the management of water resources and environmental protection; and (b) coordination of activities to be carried out at the central government, basin and various local government levels.

Community Driven Development

8. With respect to the development and implementation in the Zhangweinan Sub-basin, of SAPs and demonstration programs under Parts A.2 and A.3 of the Project respectively, the Recipient shall take measures satisfactory to the Bank to ensure participation of those with interest in the SAPs and demonstration programs, including water users, relevant government departments, private and public enterprises and associations.

9. The Recipient: (a) shall disseminate to Beijing and Tianjin, the results of Hebei's implementation of the community-driven ("CD") approach in carrying out its demonstration program for effective management of water rights and well permits (which results will be furnished to the Recipient pursuant to paragraph 4 of Schedule 2 to the Project Agreement); and (b) thereafter, ensure that Beijing and Tianjin promote similar CD programs in their irrigated agricultural areas.

Hai Basin Commission

10. The Recipient: (a) by June 30, 2004, shall have employed at the Hai Basin Commission, three (3) specialists in the field of remote sensing-based evapotranspiration technology ("RS-based ET") application, with qualifications and terms of reference acceptable to the Bank, to be responsible for the application of RS-based ET management technology in the Hai Basin; and (b) by December 31, 2007, shall have established at least three (3) permanent professional staff positions in said Commission, with qualifications and terms of reference acceptable the Bank.

Annual Work Plan

11. The Recipient:

(a) through MWR and SEPA, shall prepare and furnish to the Bank by January 31 of each year, a consolidated annual work plan (integrating the information provided in plans submitted by the Project Participants pursuant to paragraph 6 of Schedule 2 to the Project Agreement and including detailed plans for financing, procurement, training, study tours and implementation of demonstration projects under Part A.3 of the Project) for Project activities to be carried out in the following calendar year, which plan shall be prepared in accordance with terms of reference acceptable to the Bank;

(b) afford the Bank a reasonable opportunity to exchange views with MWR and SEPA and each of the Project Participants on said plan and thereafter, promptly inform each Project Participant of such plan as shall have been accepted by the Bank; and

(c) thereafter, shall carry out and cause the Project Participants to carry out their Respective Parts of the Project during the following calendar year in accordance with such plan as shall have been accepted by the Bank.

Land acquisition and involuntary resettlement

12. The Recipient shall:

(a) in the selection of sites to carry out works under the Project, take all necessary actions, and cause all necessary actions to be taken, to minimize to the extent possible any involuntary loss by persons of shelter, productive assets or access to productive assets, or income, or means of livelihood, temporarily or permanently;

(b) in the event that said works would give rise to Displaced Persons, prior to commencing such works, prepare a resettlement action plan satisfactory to the Bank, in accordance with the policies and procedures set forth in the Resettlement Policy Framework, and thereafter, implement the resettlement action plan so approved by the Bank; and

(c) furnish to the Bank any revisions proposed to be introduced into any of said resettlement action plans in order to achieve its objectives and, thereafter, introduce such revisions into such plans as shall have been agreed with the Bank.

Environmental Management Plan

13. The Recipient shall:

(a) carry out, and cause to be carried out, the Environmental Management Plan in a manner satisfactory to the Bank and designed to ensure that its Respective Part of the Project is implemented in accordance with sound environmental practices and standards;

(b) furnish any proposed revision of said Plan to the Bank for its prior approval;

(c) without limitation to its obligations under subparagraph (a) of this paragraph, with respect to the implementation of IWEMPs, SAPs and programs under Parts A.2 and A.3 of the Project, carry out, and cause to be carried out, environmental screening in accordance with guidelines set forth in the Environmental Management Plan; and thereafter (ii) incorporate appropriate mitigation measures into said IWEMPs, SAPs and programs; and.

(d) maintain policies and procedures adequate to monitor and evaluate, on an ongoing basis and in accordance with indicators acceptable to the Bank, the carrying out of said Plan and mitigation measures.

Coordination with Programs outside the Project

14. The Recipient shall: (a) furnish to the Bank by September 30, 2004, a time-bound action plan, prepared in accordance with terms of reference acceptable to the Bank, for strengthening of the framework of cooperation and coordination among the agencies and entities (including State Oceanic Administration and the United Nations) implementing selected programs for the protection of the Bohai Sea and Yellow Sea against pollution (including Partnerships in Environmental Management for the Seas of East Asia Bohai Sea Management Project and the Yellow Sea Large Marine Ecosystem program); and (b) thereafter, implement said plan taking into account the Bank's comments thereon.

Replication of Project Approaches

15. The Recipient shall furnish to the Bank by June 30, 2008, a time-bound action plan (and integrating the information provided in plans submitted by the Project Participants pursuant to paragraph 9 of Schedule 2 to the Project Agreement), prepared in accordance with terms of reference acceptable to the Bank, for the dissemination to and replication in other areas in the Hai Basin of approaches and concepts on integrated water and environment management, developed in carrying out the Project and thereafter, implement said plan taking into account the Bank's comments thereon.

Management information system

16. The Recipient shall establish by September 30, 2004, and thereafter maintain, a Management Information System ("MIS") acceptable to the Bank, within the PMOs at the central government level, to monitor and to evaluate the implementation of Project activities and facilitate management of said activities.

Monitoring and reporting

17. The Recipient shall:

(a) Prepare, under terms of reference acceptable to the Bank, and furnish to the Bank by January 31 and July 31 of each year, commencing on January 31, 2005, a consolidated semi-annual progress report based, in part, on data generated by MIS and the data furnished by the Project Participants pursuant to paragraph 14 of Schedule 2 to the Project Agreement. Each report shall cover the immediately preceding six (6) months' period ending December 31 and June 30 respectively.

(b) Prepare under terms of reference acceptable to the Bank, and furnish to the Bank by June 30 in each year, commencing in 2005, thematic reports on each demonstration project carried out under Part A.3 of the Project in the Zhangweinan Sub-basin.

(c) Maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with performance indicators acceptable to the Bank, the carrying out of the Project (including the implementation of the Environmental Management Plan and the Resettlement Policy Framework) and the achievement of the objectives thereof.

(d) Prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by July 31 of each year, commencing in 2005, for the immediately preceding twelve-month period ending on December 31, a consolidated monitoring and evaluation annual report (which report integrates the information provided in the reports submitted by the Project Participants pursuant to paragraph 14 of Schedule 2 to the Project Agreement and the progress reports prepared pursuant to subparagraph (a) of this

paragraph) integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (c) of this paragraph.

(e) Prepare under terms of reference satisfactory to the Bank and furnish to the Bank by December 31, 2006, a consolidated report (“Mid-term Review Report”) integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (c) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date.

(f) Review with the Bank, by January 31, 2007, or such later date as the Bank shall request, the Mid-Term Review Report and, thereafter, take all measures required, or cause all measures required to be taken, to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the Mid-Term Review Report and the Bank’s views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means in respect of each of the four (4) Special Account, the respective Categories set forth in the Annex to this Schedule;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means, in respect of each of the four (4) Special Accounts, the respective amount set forth as the Authorized Allocation for each Special Account in the Annex to this Schedule, to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule.
2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective Special Account such amount or amounts as the Recipient shall have requested.
 - (b)
 - (i) For replenishment of the respective Special Account, the Recipient shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the

basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank 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 GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories

shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

**Annex
To
Schedule 5**

<u>Special Account</u>	<u>Eligible Categories</u>	<u>Authorized Allocation (Expressed in US\$)</u>
Recipient Special Account	(1)(a), (2)(a), (3)(a) and (4)(a)	450,000
Beijing Special Account	(1)(b), (2)(b), (3)(b), and (4)(b)	120,000
Hebei Special Account	(1)(c), (2)(c), (3)(c) and (4)(c)	120,000
Tianjin Special Account	(1)(d), (2)(d), (3)(d), (4)(d) and (5)	400,000