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GEF GRANT NUMBER TF090719

# Global Environment Facility Grant Agreement

(Energy Efficiency Financing 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 July 11, 2008

Public Disclosure Authorized



**GRANT NUMBER TF090719**

**GLOBAL ENVIRONMENT FACILITY  
GRANT AGREEMENT**

AGREEMENT dated July 11, 2008, entered into between PEOPLE'S REPUBLIC OF CHINA ("Recipient"), and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as an implementing agency of the Global Environment Facility ("GEF").

The Recipient and the World Bank 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") 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: (i) through NDRC carry out its Respective Parts of the Project in accordance with the provisions of Article II of the Standard Conditions; (ii) cause the Project Implementing Entities to carry out their Respective Parts of the Project, in accordance with the agreement dated the same date as this Agreement between the World Bank and the Project Implementing Entities ("Project Agreement").
- 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 thirteen million five hundred thousand United States Dollars (US\$13,500,000) (“Grant”) to assist in financing Parts A, C, and D of the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV 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) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by either of the Project Implementing Entities of its obligations under the Project Agreement.
  - (b) Either of the Project Implementing Entities has failed to perform any obligation under the Project Agreement.
  - (c) The World Bank has declared either of the Project Implementing Entities ineligible to be awarded a contract financed by the World Bank.
  - (d) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that either of the Project Implementing Entities will be able to perform its obligations under the Project Agreement.
  - (e) (i) Subject to sub-paragraph (ii) of this paragraph:
    - (A) the right of the Recipient to withdraw the proceeds of any loan made to the Recipient for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
    - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

- (ii) Sub-paragraph (i) of this paragraph shall not apply if the Recipient establishes to the satisfaction of the World Bank that:  
(A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Recipient to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.
  
- (f) The World Bank has determined after the Effective Date referred to in Section 5.02 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.

## **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 condition specified below has been satisfied:

The Loan Agreements dated the same date as this Agreement, between the Recipient and the World Bank, providing loans in support of the Project ("Loan Agreements") have been executed and delivered and all conditions precedent to their effectiveness (other than the effectiveness of this Agreement) have been fulfilled.

- 5.02. 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 of this Agreement ("Effective Date"). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the 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.
  
- 5.03. Termination for Failure to Become Effective. 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 Recipient's Minister of Finance.
- 6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile:

(86-10) 6855-1125

- 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 address:

Telex:

Facsimile:

INTBAFRAD  
Washington, D.C.

248423(MCI) or  
64145(MCI)

1-202-477-6391

AGREED at Beijing, People's Republic of China, as of the day and year first above written.

PEOPLE'S REPUBLIC OF CHINA

By /s/ Zheng Xiaosong  
Authorized Representative

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

By /s/ David Dollar  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to assist the Recipient to improve energy efficiency of selected medium and large industrial enterprises, and to reduce their adverse environmental impact on climate.

The Project consists of the following parts:

#### **Part A: Promotion of Energy Efficiency Financing**

1. Strengthen the capacity of the Project Implementing Entities in: (a) energy efficiency business development, including: creation of, staffing and initial business planning for energy conservation lending business units/teams within said Project Implementing Entities; (b) evaluating and assessing the eligibility of Sub-projects; (c) developing energy conservation Sub-project pipeline and marketing energy efficiency financial products; and (d) developing energy conservation-related financing instruments and risk management tools.
2. Strengthen the capacity of selected financial institutions in: energy efficiency business startup; energy efficiency business development; appraisal of energy efficiency projects; training of their staff in regulatory frameworks governing energy efficiency business; development of risk management tools, financing instruments, and hedging instruments related to energy efficiency business.
3. Promote energy efficiency financing in the banking sector through: (a) presenting case studies of Sub-projects at national workshops; (b) introducing energy efficiency financing products and technologies to the banking sector; and (c) disseminating guidelines for assessing and developing energy efficiency projects to the banking sector.
4. Provide technical assistance to: (a) selected financial institutions and industrial enterprises to support energy conservation project demonstration, including preparation of about two (2) pilot energy efficiency projects; and (b) NDRC to support the development of an assessment, supervision, and monitoring system for industrial energy conservation projects.

#### **Part B: Energy Efficiency Sub-projects**

Provide Sub-loans to Sub-loan Beneficiaries for carrying out energy efficiency Sub-projects.



**Part C: National Policy Support and Capacity Building**

1. Provide technical assistance and operational support to NDRC in setting up the National Energy Conservation Center and supporting said Center's business start-up and strategic business planning.
2. Support the implementation of the Borrower's priority energy conservation programs set out in its 11<sup>th</sup> five-year plan, through: (a) conducting a mid-term review for the implementation of such energy conservation programs; and (b) undertaking studies to address issues that arise from such review and recommend international best practices for implementation of said national priority energy conservation programs.

**Part D: Project Management, Monitoring and Supervision**

1. Provide technical assistance and operational support to the Project Management Office in respect of Project implementation, monitoring, and supervision and reporting.
2. Provide technical assistance to support independent verification of energy conservation lending volume and energy saving performance of Sub-projects under Part B of the Project.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Implementation Arrangements**

##### **Financing Arrangements**

1. To facilitate the carrying out of Part A.1 of the Project, the Recipient shall make a portion of the proceeds of the Grant available to the Project Implementing Entities on a grant basis and under conditions satisfactory to the World Bank, including a condition that the Recipient shall have the right to suspend or terminate the right of either of the Project Implementing Entities to the use of the proceeds of the Grant made available to it upon failure by the Project Implementing Entity to perform its obligations under this Agreement and the Project Agreement; and in the event that any portion of the proceeds of the Grant provided to the Project Implementing Entity is not used for Eligible Expenditures or is otherwise used in breach of this Agreement and the Project Agreement, the Project Implementing Entity shall, upon notice from the Recipient or from the World Bank, refund the notified amount to the account provided in such notice.

##### **Institutional Arrangements**

2. For purposes of carrying out the Project, the Recipient through NDRC shall:
  - (a) establish and thereafter maintain throughout the period of implementation of the Project, a Project Steering Committee, with terms of reference, composition, and other resources acceptable to the World Bank, to be responsible for providing overall strategic and policy guidance for Project implementation; and
  - (b) establish and thereafter maintain throughout the period of implementation of the Project, a Project Management Office, with terms of reference, staffing and other resources acceptable to the World Bank, to be responsible for the overall coordination, monitoring, supervision, and reporting for the Project and for implementing Parts A (except for Part A.1), C and D of the Project.

##### **Implementation Arrangements**

3. In carrying out the Project, the Recipient shall:
  - (a) apply a Financial Management Manual, satisfactory to the World Bank, which shall include guidelines on financial management, internal controls, accounting procedures, fund and asset management and

withdrawal application procedures, consistent with the provisions set forth in Section II.B of this Schedule; and

- (b) not amend, abrogate, suspend, or waive any part of its Financial Management Manual, without the prior approval of the World Bank.

#### **Performance-based Grants**

4. The Recipient shall ensure that each of the Project Implementing Entities shall only be eligible for financing from the proceeds of the Performance-based Grant when:
  - (a) the World Bank has received a semester report prepared by an independent third party verifying: (i) the amount of Sub-Loans disbursed under Sub-Loan Agreements entered into by the Project Implementing Entity and Sub-loan Beneficiaries; and (ii) the amount of counterpart funds disbursed by the Project Implementing Entity itself, for financing energy efficiency Sub-projects in such semester; and
  - (b) the World Bank has notified the Recipient of an allocated amount of the Performance-based Grant for the Project Implementing Entity in each semester calculated based on the formula and procedures set out in the Disbursement Letter (as defined in Section IV, Paragraph A.1 of Schedule 2 to this Agreement). The amounts used in the formula, i.e. amount of Sub-Loans disbursed under Sub-Loan Agreements and the amount of counterpart funds disbursed by the Project Implementing Entity itself, for financing energy efficiency Sub-projects in such semester, will be based on those verified by the independent third party referred to in sub-paragraph (a) above.
5. The Recipient shall ensure that each of the Project Implementing Entities shall only use the proceeds of the Performance-based Grant for financing Eligible Expenditures (as defined in Section IV, paragraph A.1 of Schedule 2 to this Agreement) under Part A.1 of the Project.

#### **Parts A.2 and A.4(a) of the Project**

6. For scaling-up of the Project, the Recipient shall, during the second year of Project implementation, select financial institutions and industrial enterprises, according to selection criteria acceptable to World Bank, to participate in Parts A.2 and A.4(a) of the Project. The selection criteria shall include, *inter alia*, that selected financial institutions and industrial enterprises agree to invest their own funds, in an amount acceptable to the Recipient and the World Bank, to finance energy conservation projects.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports; Recipient's Completion Report**

1. 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 and on the basis of indicators set forth in Annex A of the Schedule to the Project Agreement. Each Project Report shall cover the period of one (1) calendar year, and shall be furnished to the World Bank not later than two (2) months after the end of the period covered by such report.
2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Recipient's Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

**B. Financial Management; Financial Reports; Audits**

1. The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.
2. The Recipient shall ensure that interim un-audited financial reports for the Project are prepared and furnished to the World Bank not later than two (2) months after the end of each calendar semester, covering the calendar semester, in form and substance satisfactory to the World Bank.
3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Procurement and Consultant Guidelines.** All goods and services required for Parts A, C, and D of the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:
  - (a) Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004 ("Procurement Guidelines") in the case of goods, and Sections I and IV of the

“Guidelines: Selection and Employment of Consultants by World Bank Recipients” published by the World Bank in May 2004 (“Consultant Guidelines”) in the case of consultants’ services; and

- (b) the provisions of this Section III, as the same shall be elaborated in the procurement plans prepared and updated from time to time by the Recipient for Parts A (except for Part A.1), C, and D of the Project and by the Project Implementing Entities for Part A.1 of the Project, in accordance with paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines (“Procurement Plans”).

- 2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Method of Procurement of Goods**

- 1. **Method of Procurement of Goods.** The following table specifies the method of procurement, which may be used for particular goods. The Procurement Plans shall specify the circumstances under which such method may be used.

<b>Procurement Method:</b>
(a) Shopping

**C. Particular Methods of Procurement of Consultants’ Services**

- 1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
- 2. **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those assignments which are specified in the Procurement Plans: (a) Quality-based Selection; (b) Selection based on Consultants’ Qualifications; (c) Single-source Selection; and (d) Selection of Individual Consultants.

**D. Review by the World Bank of Procurement Decisions**

- 1. The Procurement Plans shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Section IV. Withdrawal of Grant Proceeds**

**A. General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank shall specify by notice to the Recipient (the Disbursement Letter), including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b><u>Category</u></b>	<b><u>Amount Of the Grant Allocated (expressed in USD)</u></b>	<b><u>Percentage of Expenditures to be Financed (inclusive of Taxes)</u></b>
(1) Parts A (except Part A.1), C and D of the Project		100%
(a) Goods, consultants services and training	7,100,000	
(b) Operating Costs	100,000	
(2) Part A.1 of the Project to be carried out by Exim Bank		100%
(a) Goods, consultants services and training	1,775,000	
(b) Operating Costs	100,000	
(3) Part A.1 of the Project to be carried out by Hua Xia Bank		100%
(a) Goods, consultants services and training	1,775,000	
(b) Operating Costs	100,000	

(4) Performance-based Grants	2,550,000	100% of Performance-based Grant amount disbursed
<b>TOTAL AMOUNT</b>	<b>13,500,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for:
  - (a) payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$1,000,000 equivalent may be made for payments made prior to this date but on or after March 1, 2008 for goods and consultants services under Category (1)(a) and consultants services under Category (2)(a); and
  - (b) payments under Categories (1)(a) and (1)(b) until the Recipient through NDRC has adopted its Financial Management Manual applicable to the GEF Grant in accordance with the provisions of paragraph 3(a) of Section I of Schedule 2 to this Agreement.
2. The Closing Date referred to in Section 3.06(c) of the Standard Conditions is December 31, 2013.

## APPENDIX

### Definitions

- (a) “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
- (b) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004.
- (c) “The Export-Import Bank of China” and the acronym “Exim Bank” mean the state-owned bank established in 1994 pursuant to the State Council Document No. 20 of 1994, responsible for, among others, financing of export and import within the Recipient’s priority sectors, and providing credit to support the development of the Recipient’s priority sectors, and any successor thereto.
- (d) “Financial Management Manuals” means, collectively: (i) the financial management manuals applicable to the Loans and the GEF Grant, each dated November 21, 2007, adopted by the Project Implementing Entities and referred to in paragraph 2(b) of Section I of the Schedule to the Project Agreement; and (ii) the financial management manual applicable to the GEF Grant to be adopted by NDRC and referred to in paragraph 3 of Section I of Schedule 2 to this Agreement; as such Manuals may be amended from time to time with the prior approval by the Recipient; and “Financial Management Manual” means either of the Financial Management Manuals.
- (e) “Hua Xia Bank Co., Limited” and the acronym “Hua Xia Bank” mean the commercial bank established in 1992 pursuant to the Bank of China Document No. 321 of 1992; and converted as a shareholding limited company according to the Recipient’s Company Law in 1996 and operating pursuant to its Articles of Association dated November 17, 2005, and to Business License No. 1000001002967 dated December 11, 2007, issued by the State Industry and Commerce Administrative Bureau, and any successor thereto.
- (f) “Loan Agreements” means collectively, the two Loan Agreements entered into between People’s Republic of China and the World Bank for financing the Project dated the same date as this Agreement, and “Loan Agreement” means either of the Loan Agreements.
- (g) “NDRC” means the Recipient’s National Development and Reform Commission, and any successor thereto.
- (h) “Operating Costs” means the reasonable expenditures directly related to Parts A, C, and D of the Project incurred by NDRC PMO and the Project Implementing



Entities, on account of implementation, management, coordination, and monitoring and evaluation under said Parts of the Project, in respect of travel costs, vehicle and equipment maintenance and repair, office supplies, communications costs, logistics and translation services, production and reproduction of documents required for Project implementation, including training materials, but excluding the salaries and salary supplements of the Recipient's civil servants.

- (i) "Performance-based Grant" means a grant made by the Recipient through NDRC to a Project Implementing Entity out of the proceeds of the Grant to finance Eligible Expenditures under Part A.1 of the Project in accordance with the provisions of paragraphs 4 and 5 of Section I of Schedule 2 to this Agreement and the provisions in the Disbursement Letter for the Grant issued by the World Bank to the Recipient of the same date as this Agreement, and "Performance-based Grants" means, collectively, the plural thereof.
- (j) "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the World Bank in May 2004.
- (k) "Procurement Plans" means, collectively, the procurement plan dated February 22, 2008 prepared by NDRC for its Respective Parts of the Project, the procurement plan dated January 8, 2008 prepared by Exim Bank for Part A.1 of the Project, and the procurement plan dated January 8, 2008 prepared by Hua Xia Bank for Part A.1 of the Project, and all referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
- (l) "Project Agreement" means the agreement between the World Bank and the Project Implementing Entities of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the Project Agreement.
- (m) "Project Implementing Entities" and the acronym "PIEs" mean collectively, the Exim Bank and Hua Xia Bank, and any successors thereto, and "Project Implementing Entity" means either of the Project Implementing Entities.
- (n) "Project Management Office" means the office referred to in paragraph 2(b) of Section I of Schedule 2 to this Agreement.
- (o) "Project Steering Committee" means the committee referred to in paragraph 2(a) of Section I of Schedule 2 to this Agreement.

- (p) “Respective Parts of the Project” means in respect of: (i) NDRC’s PMO, Parts A (except for Part A.1), C and D of the Project; and (ii) Project Implementing Entities, Part A.1 of the Project.
- (q) “Sub-loan” means a loan made by a Project Implementing Entity to a Sub-loan Beneficiary out of the proceeds of the Loan for the financing and carrying out of a Sub-project under Part B of the Project pursuant to the provisions of the Project Agreement, its Operational Manual and Financial Management Manual; and the term “Sub-loans” means, collectively, all such Sub-loans.
- (r) “Sub-loan Agreement” means the agreement to be entered into between a Project Implementing Entity and a Sub-loan Beneficiary for purposes of providing a Sub-loan pursuant to paragraph 6 of Section I of the Schedule to the Project Agreement, as the same may be amended from time to time with the prior agreement of the World Bank; and “Sub-loan Agreements” means, collectively, all of said Sub-loan Agreements.
- (s) “Sub-loan Beneficiary” means a medium or large industrial enterprise, or an energy service company (ESCO), established and operating pursuant to the relevant laws of the Recipient eligible to carry out a Sub-project pursuant to the Operational Manual prepared by each of the Project Implementing Entities; and the term “Sub-loan Beneficiaries” means, collectively, all such Sub-loan Beneficiaries.
- (t) “Sub-project” means an energy efficiency investment project under Part B of the Project to be carried out by a Sub-loan Beneficiary, using financing from the proceeds of a Sub-loan in accordance with the provisions of the Operational Manual and Financial Management Manual prepared by each of the Project Implementing Entities and the relevant provisions in the Project Agreement; and the term “Sub-projects” means, collectively, all such Sub-projects.