

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF051248 CE

Global Environment Facility Trust Fund Grant Agreement

(Renewable Energy for Rural Economic Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated July 12, 2002

GEF TRUST FUND GRANT NUMBER TF051248 CE

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated July 12, 2002, between DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA (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 second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to the Development Credit Agreement, an agreement of even date herewith (the Development Credit Agreement), between the Recipient (in such capacity, the Borrower) and the International Development Association (the Association), has requested assistance from the resources of the GEF Trust Fund for financing the Project;

(E) Recipient's request was approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution No. 94-2, and is to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 94-2;

(F) the Borrower has also requested International Development Association (the Association) to provide additional financing for the Project;

(G) the Project shall be carried out by the DFCC Bank with the Recipient's assistance, and as part of such assistance, the Recipient shall make available to DFCC Bank part of the proceeds of the grant to be provided under Article II of this Agreement (the GEF Trust Fund Grant) and part of the proceeds of the credit to be made under Article II of the Development Credit Agreement (the Credit); 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 and in the GEF Project Agreement of even date herewith between the Bank and DFCC Bank;

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 Currency Pool Loans of the Bank, dated January 1, 1985, (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 (1), (2), (3), (4), (6), (8), (9), (10), (15), (16), (17), (19) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (l), (m), (n), (o) and (p), 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), 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) a new paragraph shall be added to the end of Section 2.01 to read as follows: “the term “Special Drawing Rights” and the symbol “SDR” mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement”;
- (ii) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (8) and 6.02 (f) thereof and the last use of such term in Section 5.01 thereof, means the 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;
- (iii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iv) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (v) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (vi) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vii) The second sentence of Section 5.01 is modified to read: “Except as the Bank and the Recipient shall otherwise agree, no withdrawals shall be

made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Bank, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”; and

(viii) a new subparagraph (q) is added after subparagraph (p) 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 (as defined in this Agreement) and the Recitals to this Agreement have the respective meanings therein set forth; and the following additional terms have the following meanings:

(a) “Administration Agreement” means the agreement between the Recipient and DFCC Bank for implementing the Project, including all schedules, supplemental agreements and amendments made from time to time, approved by the Bank;

(b) “Administrative Unit” means the Administrative Unit established by DFCC Bank, which is responsible for implementing the Project, in accordance with the terms and conditions of the Administration Agreement;

(c) “Development Credit Agreement” means the agreement of even date herewith between the Association and the Borrower relating to the Project, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Development Credit Agreement;

(d) “DFCC Bank” means DFCC Bank, a body corporate established under the Development Finance Corporation of Ceylon Act No. 35 of 1955, as amended, and any successor entity to DFCC Bank recognized by the Recipient in accordance with the terms of the Administration Agreement;

(e) “Eligibility Criteria” means the Recipient’s list of criteria, acceptable to the Bank, to determine whether an entity qualifies to be a Participating Credit Institution (as hereinafter defined) for the purposes of this Project;

(f) “Eligible Categories” means the categories (1) (a), (1) (b), (2), (3) (a), (3) (b), (3) (c), (4), and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 of this Agreement;

(h) “Environment and Social Assessment Framework” means Recipient’s framework document dated February 20, 2002, and any amendments to such document, satisfactory to the Bank, that shall: (i) enable the Recipient to assess, among other things,

the Project's environmental and social impacts; and (ii) where applicable, govern the preparation of environmental management plans, resettlement and rehabilitation plans, indigenous peoples development plans and other appropriate mechanisms, satisfactory to the Bank, required to mitigate and monitor any adverse impacts from carrying out the Project;

(i) "Fiscal Year" means the Fiscal Year of the Recipient beginning on January 1 of a calendar year and ending on December 31 of the calendar year;

(j) "GEF Project Agreement" means the agreement between the Bank and DFCC Bank, of even date herewith relating to carrying out the Project, including any amendments made, from time to time, and all schedules and supplemental agreements;

(k) "GEF Special Account" means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(l) "IDA Project Agreement" means the agreement between the Association and DFCC Bank, of even date herewith relating to carrying out the Project, including any amendments made, from time to time, and all schedules and supplemental agreements;

(m) "Investment Enterprise" means an entity or household that intends to carry out an Investment Project for which the entity or household receives or is expected to receive a Sub-grant or an Investment Project Preparation Grant from the Recipient (as such terms are hereinafter defined) out of the proceeds of the GEF Trust Fund Grant;

(n) "Investment Project" means any of the following renewable energy or energy conservation projects that qualify under the Operating Guidelines (as hereinafter defined) for a Sub-loan, Sub-grant or an Investment Project Preparation Grant under the Project:

(i) grid-connected hydro, wind and biomass energy projects;

(ii) solar photo voltaic projects;

(iii) community-based wind, hydro and biomass energy projects;

(iv) energy efficiency, conservation and demand-side management projects;

and

(v) other eligible renewable energy projects that satisfy the Operating Guidelines;

(o) "Investment Project Preparation Grant" means a grant made by the Recipient, utilizing the proceeds of the GEF Trust Fund Grant and the Credit, to assist an Investment Enterprise in preparing an Investment Project;

(p) "Operating Guidelines" means the Recipient's operating guidelines dated May 10, 2002, for implementing the Project, satisfactory and acceptable to the Bank including any amendments made to these guidelines with the Bank's agreement;

(q) "Participation Agreement" means a participation agreement, in form and substance acceptable to the Bank, to be entered between the Borrower and a Participating Credit

Institution, relating among other things, to Sub-loans under Part A of the Project;

(r) “Participating Credit Institution” means any financial institution established and operating in accordance with the laws of the Borrower, that satisfies the Eligibility Criteria to participate in the Project and executes a Participation Agreement for this purpose;

(s) “Project Implementation Plan” means Recipient’s Project Implementation Plan dated May 10, 2002, approved by the Bank, containing, among other things, financial projections or forecasts for the Project, details regarding procurement, format and content of project financial reports, monitoring and performance indicators and procedures to be used for implementation of the Project, and shall include any accompanying schedules or exhibits and any amendments or updates made, from time to time, by the Recipient or DFCC Bank with the Bank’s agreement;

(t) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(u) “Rs” and “rupees” means the currency of the Recipient;

(v) “Sub-grant” means a grant to an Investment Enterprise by the Recipient, out of the proceeds of the Credit or the GEF Trust Fund Grant, for an Investment Project under Part A of the Project, in accordance with the Operating Guidelines; and

(w) “Sub-loan” means a loan or lease financing made, or proposed to be made, to an Investment Enterprise by a Participating Credit Institution, out of the Credit proceeds, for an Investment Project under Part A of the Project, in accordance with the Operating Guidelines, and the Participation Agreement between the Participating Credit Institution and the Recipient, and, unless the context otherwise requires, the term “Sub-loan” includes a Free-Limit Sub-loan (as such term is defined in the Development Credit Agreement).

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 in various currencies equivalent to six million four hundred thousand Special Drawing Rights (SDR 6,400,000).

Section 2.02. 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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be June 30, 2008, 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 the Development Credit Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall cause DFCC Bank to perform, in accordance with the provisions of this agreement, the IDA Project Agreement, the GEF Project Agreement and the Administration Agreement, all the obligations of DFCC Bank and the Administrative Unit therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable DFCC Bank to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Recipient shall make available to the Administrative Unit, on a grant basis, proceeds of the GEF Trust Fund Grant allocated, from time to time, for: (i) Sub-grants to be made to Investment Enterprises under Part A of the Project (finance for Investment Projects); and (ii) Investment Project Preparation Grants and other expenditure for activities under Part B (technical assistance) and Part C of the Project (project implementation assistance) in accordance with the Administration Agreement to be entered into between the Recipient and DFCC Bank.

(c) The Recipient shall exercise its rights under the Administration Agreement and the arrangements referred to in paragraph 4 of Schedule 3 (Investment Projects) in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Administration Agreement.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree

- (i) the Recipient shall ensure that the Project is carried out in accordance with its obligations set forth in Schedule 2 (Recipient's Project Obligations) and Schedule 3 (Investment Projects) to this Agreement; and
- (ii) the Recipient shall cause DFCC Bank to carry out the Project in accordance with the Implementation Program set forth in Schedule 1 to the GEF Project Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to the IDA Project Agreement.

Section 3.03. The obligations of the Borrower in Sections 3.02 (a) and 3.02 (b) of the Development Credit Agreement shall apply *mutatis mutandis* to the obligations of the Recipient under this Agreement.

Section 3.04. 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 plan designed to ensure the sustainability of the Project; and

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

Section 3.05. The Recipient and the Bank hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by DFCC Bank pursuant to Section 2.03 of the GEF Project Agreement.

ARTICLE IV

Financial Conditions

Section 4.01. For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of Project Management Reports, the Recipient shall, or shall cause DFCC Bank to:

- (a)
 - (i) maintain, in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;
 - (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the Fiscal Year in which the last withdrawal from the GEF Trust Fund Grant Account was made; and
 - (iii) enable the Bank's representatives to examine such records.
- (b) The Recipient shall, or shall cause DFCC Bank to:
 - (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the GEF Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such Fiscal Year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

Section 4.02. The Recipient shall prepare, or shall cause the Administrative Unit to prepare, in accordance with guidelines acceptable to the Bank, and furnish to the Bank not later than 45 days after the end of each calendar quarter, a Project Management Report for such period, which:

- (a)
 - (i) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report; and
 - (ii) shows separately expenditures financed out of the proceeds of the GEF Trust Fund Grant during the period covered by said report and out of the proceeds of the GEF Trust Fund Grant during the six-month period following the period covered by said report;
- (b)
 - (i) describes physical progress in Project implementation, both cumulatively and for the period covered by said report; and
 - (ii) explains variances between the actual and previously forecast implementation targets; and
- (c) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the GEF Trust Fund Grant, as at the end of the period covered by said report.

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) DFCC Bank or the Administrative Unit shall have failed to perform any of its obligations under this Agreement, the Development Credit Agreement, the GEF Project Agreement, the IDA Project Agreement, or the Administration 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 DFCC Bank or the Administrative Unit will be able to perform its obligations under this Agreement, the Development Credit Agreement, the IDA Project Agreement, the GEF Project Agreement, or the Administration Agreement;
- (c) the legal framework or the principal corporate and organizational documents governing DFCC Bank shall have been amended, suspended, abrogated, repealed or waived so as

to affect materially and adversely the ability of DFCC Bank to perform any of its obligations under this Agreement, the Development Credit Agreement, the IDA Project Agreement, the GEF Project Agreement, or the Administration Agreement;

(d) the Recipient or any appropriate legal or regulatory authority within its jurisdiction shall have taken any action for the dissolution or disestablishment of DFCC Bank or for the suspension of its operations;

(e) the Borrower shall have failed to perform any of its obligations under the Development Credit Agreement; and

(f) the Borrower's right to withdraw the proceeds of the Credit shall have been suspended, cancelled or terminated, in whole or in part, by the Association pursuant to the terms of the Development Credit Agreement.

Section 5.02. Pursuant to Section 7.01(k) of the General Conditions, the following additional events are specified:

(a) any of the events specified in paragraphs (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of thirty days after notice thereof shall have been given by the Bank to the Recipient; and

(b) any of the events specified in paragraphs (e) and (f) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as conditions to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that all conditions precedent to the effectiveness of the Development Credit Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) the GEF Project Agreement has been duly authorized or ratified by DFCC Bank, and is legally binding upon DFCC Bank in accordance with their respective terms; and

(b) the Administration Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and DFCC Bank and is legally binding upon the Recipient and DFCC Bank in accordance with its terms.

Section 6.03. 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 6.04. 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.

ARTICLE VII

Representatives of the Recipient; Addresses

Section 7.01. The Secretary, Ministry of Finance, or the Director General, External Resources Department, Ministry 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
The Secretariat
Colombo 1, Sri Lanka

Cable address:	Telex:	Facsimile:
SECMINFIN	FINMIN 21409	449823
	FORAID 21232	447633

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	248423 (MCI)	(202)-477-6391
Washington, D.C.	64145 (MCI)	

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

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

By /s/ Charitha Ratwatte

Authorized Representative

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

By /s/ Peter Harrold

Country Director, Sri Lanka

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

Part A: General

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 Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Investment Project Preparation Grants:		
(a) Grants made for preparation activities and feasibility studies carried out by tax-exempt consultants and non- governmental entities	200,000	100% of amounts disbursed for preparation activities and feasibility studies
(b) Other grants for preparation activities and studies	40,000	80% of amounts disbursed for preparation activities and feasibility studies
(2) Sub-grants under Part A of the Project	2,960,000	100% of eligible expenditures
(3) Consultants' services, training and study tours:		

(a) Individual consultants	700,000	80%
(b) Consulting firms	1,500,000	80%
(c) Training, workshops and study tours	120,000	80%
(4) Goods	640,000	100% of foreign expenditures, 100% of the ex-factory cost of local expenditures; 75% of local expenditures
(5) Support for Administrative Unit	160,000	100%
(6) Unallocated	80,000	
TOTAL	6,400,000	

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;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient;

(c) the term “support for Administrative Unit” means staff costs, allowances, and local travel costs of individuals engaged as Project staff by the Administrative Unit for the purposes of carrying out the Project; and

(d) the term “tax-exempt consultants and non-governmental entities” means those consultants and non-governmental entities who are not liable to tax under the laws of the Recipient.

3. 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.

Part B: GEF Special Account

1. The Recipient shall open and maintain in the Central Bank of Sri Lanka a special deposit account on terms and conditions satisfactory to the Bank. Except as the Bank may otherwise specify by notice to the Recipient, all withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the GEF Special Account in accordance with the provisions of this

Schedule. Payments out of the GEF Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the GEF 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.

2. Except as the Bank shall otherwise agree, after the Bank has received evidence satisfactory to it that the GEF Special Account has been duly opened, withdrawals from the GEF Trust Fund Grant Account of amounts to be deposited into the GEF Special Account shall be made as follows:

(a) Each application for withdrawal from the GEF Trust Fund Grant Account shall be supported by a Project Management Report.

(b) Upon receipt of each application for withdrawal of an amount of the Credit, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the GEF Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said report to be remaining in the GEF Special Account, shall not exceed the equivalent of \$1,600,000. Each such deposit into the GEF Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the GEF Special Account's Eligible Categories.

3. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the GEF Special Account:

(a) if the Bank determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Recipient directly from the GEF Trust Fund Grant Account; or

(c) 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 (A) the records and accounts for the GEF Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

4. The Bank shall not be required to make further deposits into the GEF Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the GEF Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

5. (a) If the Bank determines at any time that any payment out of the GEF Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified

by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the GEF Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment.

(b) If the Bank determines at any time that any amount outstanding in the GEF Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 GEF Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 5 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

SCHEDULE 2

Recipient's Project Obligations

1. The Recipient shall develop standards for the recycling and disposal of batteries used in solar home systems within two years of the Effective Date of this Agreement.

2. The Recipient shall, or shall cause DFCC Bank to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank by December 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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; and

(c) review with the Bank, by March 31, 2005, or such later date as the Bank shall agree, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

SCHEDULE 3

Investment Projects

Appraising Investment Projects

1. Except as the Bank may otherwise agree, the Recipient shall ensure, or shall cause the Administrative Unit to ensure, that Investment Projects shall be promoted, identified, appraised, approved, carried out and monitored in accordance with the procedures and other provisions set forth or referred to in this Agreement and the Operating Guidelines.

Environmental and Social Assessment Framework

2. The Recipient shall ensure that Investment Projects, which receive Sub-grants under the Project, comply with the environmental, resettlement and social standards set forth in the Environment and Social Assessment Framework.

3. In accordance with paragraph 2, above, the Recipient shall ensure that:

(a) each Investment Enterprise applying for financing under the Project provides evidence satisfactory to the Bank and the Recipient showing that the Investment Project in respect of which the application has been made has been prepared in accordance with the standards referred in paragraph 2, above.

(b) An application for financing an Investment Project shall include, where applicable, among other things, an environmental assessment, an environmental management plan, a resettlement and rehabilitation plan and an indigenous peoples development plan, for such Investment Project, each of which shall be satisfactory and acceptable to the Bank.

(c) The Recipient shall engage, or shall cause the Administrative Unit to engage, by no later than December 31, 2002, a consultant, with qualifications and experience satisfactory to the Bank, to review, for the purposes of sub-paragraphs (a) and (b), above, applications for financing Investment Projects from proceeds of the GEF Trust Fund Grant.

Investment Project Documentation

4. The Recipient shall ensure, or shall cause the Administrative Unit to ensure, that appropriate and sufficient legal and financing documentation is made available by an Investment Enterprise prior to making a Sub-grant or an Investment Project Preparation Grant to the Investment Enterprise.

5. In accordance with the terms of the Operating Guidelines, the documentation referred to in paragraph 4, above, shall contain necessary and appropriate provisions to protect the interests of the Bank, the Recipient and, where applicable, the Administrative Unit.

