

CONFORMED COPY

OTF GRANT NUMBER TF 028200 PAK

OZONE PROJECTS TRUST FUND
GRANT AGREEMENT

(Montreal Protocol Ozone Depleting
Substances Phase-Out Project)

between

ISLAMIC REPUBLIC OF PAKISTAN

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as Trustee of the Ozone Projects
Trust Fund

Dated February 7, 1997

OTF GRANT NUMBER TF 028200 PAK

OZONE PROJECTS TRUST FUND GRANT AGREEMENT

AGREEMENT, dated February 7, 1997, between the ISLAMIC REPUBLIC OF PAKISTAN acting by its President (the "Recipient") and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, acting as Trustee of grant funds provided by Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer into the Ozone Projects Trust Fund ("OTF") (the "Trustee").

WHEREAS (A) The International Bank for Reconstruction and Development (the "Bank"), pursuant to Resolution No. 91-5 of March 14, 1991, of the Executive Directors of the Bank (the "Resolution"), established a Facility, including the OTF, to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development;

WHEREAS (B) The Parties to the Montreal Protocol on Substances that Deplete the Ozone Layer to the Vienna Convention for the Protection of the Ozone Layer have established the Interim Multilateral Fund (the "Fund") for the Implementation of the Montreal Protocol to operate under the authority of the said Parties to provide the financing of agreed incremental costs to enable the Parties operating under paragraph 1 of Article 5 of the Protocol to comply with control measures provided for in the Protocol;

WHEREAS (C) The Executive Committee of the Fund (the "Executive Committee") and the Bank have entered into an agreement effective on July 9, 1991, pursuant to which the Executive Committee has agreed to provide funds into the OTF to be administered by the Bank as Trustee in accordance with the provisions of the said agreement and the Resolution;

WHEREAS (D) The Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested

assistance from the resources of the OTF in the financing of the Project, and the Trustee has determined that such assistance would be in accordance with the provisions of the Resolution; and

WHEREAS (E) The Trustee has agreed, on the basis, inter alia, of the foregoing, to extend a grant (the "OTF Grant") to the Recipient upon the terms and conditions set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (6), (8), (9), (10), (11), (15), (18) and (20), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and the first sentence of Section 4.09;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (c), (e), (f), (g), (i) and (k), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01 (a) and (c), 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09;
- (ix) Sections 10.01, 10.03 and 10.04;
- (x) Article XI; and
- (xi) Sections 12.02, 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 and the last use of such term in Section 5.01 thereof, means the Trustee except that in Section 6.02, the term "Bank" shall also include the International Bank for Reconstruction and Development acting in its own capacity;
- (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 OTF Grant; and
- (v) The term "Loan Account" wherever used in the General Conditions, means the OTF Grant Account.

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) "Country Program" means the Recipient's Country Program for the Phase-Out of Ozone-Depleting Substances, substantially conforming to the draft dated January 1996 satisfactory to the Trustee;

(b) "ELG&RD" means the Recipient's Ministry of Environment, Local Government and Rural Development;

(c) "Fiscal Year" means the twelve (12) month period corresponding to any of the Recipient's fiscal years, which period commences on July 1 and ends on June 30 in each calendar year;

(d) "NDFC" means the National Development Finance Corporation of Pakistan, a legal entity established and existing under the Recipient's National Development Finance Corporation Act (XIII) of 1973, as amended from time to time;

(e) "MOA" means the Memorandum of Agreement to be entered into among MOF, ELG&RD and NDFC referred to in Section 3.01(b) of this Agreement;

(f) "MOF" means the Recipient's Ministry of Finance;

(g) "ODS" means ozone depleting substances;

(h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(i) "Subgrant" means a grant to be provided under a Subgrant Agreement to finance a Subproject;

(j) "Subgrant Agreement" means the agreement referred to in Section 3.05 of this Agreement;

(k) "Subproject" means a project, selected and prepared in accordance with the Operating Policy Guidelines and approved by the Trustee or the Executive Committee, as the case may be, consisting of investments and other activities eligible under the Protocol which result in reduction of ODS use or in the substitution of non-ozone depleting technologies for ozone depleting technologies;

(l) "Subproject Beneficiary" means any private or public sector entity which shall carry out a Subproject, using a portion of the proceeds of the OTF Grant; and

(m) "Operating Policy Guidelines" or "OPG" means the guidelines prepared by the Recipient, pursuant to the provisions of Section 3.04 of this Agreement, for the preparation and implementation of Subprojects to phase out ozone-depleting substances financed under the OTF, as the same may be amended from time to time with the agreement of the Trustee.

ARTICLE II

The OTF Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the OTF Grant in an amount in various currencies not to exceed the equivalent of thirteen million dollars (\$13,000,000).

Section 2.02. (a) The amount of the OTF Grant may be withdrawn from the OTF Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Trustee shall so agree, to be made) in respect of the reasonable cost of goods and services required for carrying out the Project, and to be financed out of the proceeds of the OTF Grant.

(b) The Recipient shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank and on terms and conditions satisfactory to the Trustee, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. NDFC is hereby designated as representative of the Recipient for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

Section 2.04. The Closing Date shall be June 30, 2001, or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

Section 2.05. The Trustee shall not be obligated to make any payment under this Agreement, except to the extent it shall have received funds for the purposes of the Project from the Executive Committee referred to in WHEREAS Clause (C) of the Preamble to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MOF, ELG&RD and NDFC with due diligence and efficiency and in conformity with appropriate administrative, economic, engineering, and financial practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation to the generality of the foregoing, the Recipient shall, through MOF and ELG&RD, enter into a memorandum of agreement with NDFC, satisfactory to the Trustee, appointing NDFC as the financial intermediary on behalf of the Recipient for purposes of the Project, and delineating the respective responsibilities of MOF and ELG&RD, on the one hand, and NDFC, on the other hand, under the Project.

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

Section 3.03. On the basis of the MOA, the Recipient shall cause NDFC, as the financial intermediary of the Recipient, to make a portion of the proceeds of the OTF Grant available to each Subproject Beneficiary to carry out its respective Subproject, under the Project, under a Subgrant Agreement, which shall have been approved by the Trustee, to be entered into between NDFC and each Beneficiary in accordance with the provisions of Section 3.05 of, and Schedule 4 to, this Agreement.

Section 3.04. (a) The Recipient shall prepare, or cause to be prepared, Operating Policy Guidelines, satisfactory to the Trustee, setting forth the terms and conditions and related procedures for the conditions precedent to the effectiveness of Subprojects and the contracting, processing, financing and monitoring the carrying out of Subprojects, which Operating Policy Guidelines shall include, inter alia, a model Subgrant Agreement satisfactory to the Trustee.

(b) When submitting a Subproject to the Trustee, for approval of the Trustee or the Executive Committee (as the case may be, pursuant to Subparagraphs 2 (b) and (c) of Schedule 1 to this Agreement), the Recipient shall furnish to the Trustee an application, in form and substance satisfactory to the Trustee, containing inter alia: (a) an appraisal of the Subproject, and a description of the expenditures proposed to be financed out of the proceeds of the OTF Grant; (b) a detailed description of how such Subproject meets the Operating Policy Guidelines; and (c) such other information as the Trustee or the Executive Committee shall reasonably request in respect of such Subproject.

Section 3.05. (a) The Recipient shall cause NDFC to enter into a Subgrant Agreement with each Subproject Beneficiary, under terms and conditions consistent with the Decisions of the Executive Committee and acceptable to the Trustee, including those set forth in Schedule 4 to this Agreement, providing for the transfer, on a grant basis, of the proceeds of the OTF Grant allocated to such Subproject Beneficiary's Subproject and the obligation of the Subproject Beneficiary to carry out such Subproject. The Trustee shall promptly inform the Recipient of any Decision of the Executive Committee, issued after the date of this Agreement, which will affect the terms and conditions of any Subgrant Agreement.

(b) The Recipient shall cause NDFC to exercise its rights under the Subgrant Agreement in such a manner as to protect the interests of the Recipient, NDFC and the Trustee and to accomplish the purposes of the OTF Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not permit NDFC to assign, amend, abrogate or waive the Subgrant Agreement or any part thereof.

Section 3.06. For each Subproject approved by the Trustee in accordance with the provisions of this Agreement, NDFC shall be entitled to an agency fee in an amount not to exceed the equivalent of three percent (3%) of the amounts disbursed under each Subgrant Agreement, such fee to be paid out of the proceeds of the OTF Grant as

follows: (a) one percent (1%) of the Subgrant amount after approval of the Subproject by the Trustee; and (b) the remaining two percent (2%), pro-rata, on the dates of disbursement of the Subgrant proceeds under the Subgrant Agreement.

Section 3.07. The Recipient shall, at least during the execution of the Project, maintain within ELG&RD, responsible for the overall management and coordination of the implementation of the Project, qualified staff in adequate numbers and with all necessary resources.

Section 3.08. The Recipient and NDFC shall, starting six (6) months after the Effective Date and until the completion of the Project, carry out semiannual reviews, jointly with the Trustee, to monitor progress in Project implementation, including the need for adjustments to the MOA, the OPG, and the model Subgrant Agreement, when such amendments shall be deemed to be necessary to achieve Project objectives.

Section 3.09. The Borrower shall maintain an Ozone Cell within ELG&RD with staff, resources and terms of reference satisfactory to the Trustee.

Section 3.10. The Recipient shall through ELG&RD ensure that Subprojects submitted to the Trustee conform to the Country Program and adopt cost-effective technologies in accordance with criteria satisfactory to the Trustee. Provided, however, that nothing herein shall preclude the Recipient from proposing, and the Trustee from considering, for financing out of the proceeds of the OTF Grant, Subprojects which shall not have been included in the Country Program but which shall otherwise in all respects have qualified as Subprojects within the meaning of the term set forth in Section 1.02 (k) of this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall:

- (i) maintain, or cause to be maintained, records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments, agencies or entities (including, but without limitation, NDFC) of the Recipient responsible for carrying out the Project or any part thereof; and
- (ii) cause each Subproject Beneficiary to maintain records and separate accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures of such Subproject Beneficiary in respect of its Subproject.

(b) The Recipient shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee;
- (ii) furnish to the Trustee as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Trustee shall have reasonably requested; and
- (iii) furnish to the Trustee such other information concerning said records and accounts and the audit thereof as the Trustee shall from time to time reasonably request.

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, or cause to be retained, until at least one (1) year after the Trustee has received the audit report for the Fiscal Year in which the last withdrawal from the OTF Grant Account was made, all

records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Trustee's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such Fiscal Year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Trustee

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

(a) The Recipient, or any other authority having jurisdiction, shall have taken any action for the dissolution or disestablishment of NDFC, or for the suspension of its operations;

(b) The Recipient, or any other authority, shall have taken any action, including but without limitation, the enactment or issuance of legislation or regulations, which, in the opinion of the Trustee, may adversely affect, prevent or interfere with the carrying out of the Project, or any part thereof or the performance by NDFC of any of its obligations under this Agreement; or

(c) NDFC shall have failed to perform any of its respective obligations under the MOA.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following events are specified as conditions to the effectiveness of this Agreement:

(a) the Operating Policy Guidelines have been issued; and

(b) the MOA has been duly executed on behalf of the Recipient, acting through MOF and ELG&RD, and on behalf of NDFC.

Section 6.02. The following matter 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 Trustee, namely, that the MOA has been duly authorized or ratified by MOF and ELG&RD on behalf of the Recipient and by NDFC and is legally binding upon each party in accordance with its terms.

Section 6.03. The date one hundred and twenty (120) 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 parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Secretary to the Government of Pakistan, Economic Affairs Division, or any Additional Secretary, Joint Secretary, Deputy Secretary or Section Officer in the Economic Affairs Division 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:

Secretary to the Government
of Pakistan
Economic Affairs Division
Islamabad, Pakistan

Cable address:

ECONOMIC
Islamabad

Telex:

ECDIV-05-634

For the Trustee:

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

Cable Address:

INTBAFRAD
Washington, D.C.

Telex:

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

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

ISLAMIC REPUBLIC OF PAKISTAN

By /s/ Mansoor Elahi

Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
as Trustee of the Ozone Projects Trust Fund

By /s/ Fakhruddin Ahmed

Acting Director, Country Department I
South Asia Region

SCHEDULE 1

Withdrawal of the Proceeds of the OTF Grant

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

Category	Amount of the OTF Grant Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Subgrants	12,610,000	
(a) Goods		100% of foreign expenditures, 100% of local expenditures

			(ex-factory cost) and 80% of local expendi- tures for other items procured locally
	(b) Consultants' services		100%
(2)	NDFC Agency Fee	390,000	Amounts due pursuant to Section 3.06 of this Agreement
	TOTAL	13,000,000	

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 Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

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

(a) prior to the date of this Agreement, except that withdrawals may be made up to \$1,300,000 in respect of Categories (1) and (2) on account of payments made for expenditures before that date but after December 18, 1992;

(b) under a Subproject estimated to cost the equivalent of \$500,000 or more, unless the Executive Committee has approved such Subproject;

(c) under a Subproject estimated to cost the equivalent of less than \$500,000, unless the Trustee has approved such Subproject; and

(d) under any Subproject, unless the respective Subgrant Agreement has been entered into between the parties thereto.

4. If the Trustee shall have determined at any time that any payment made from the OTF Grant Account was used for any expenditure not eligible for financing under this Schedule or used in any manner not consistent with the provisions of this Agreement, the Recipient shall, promptly upon notice from the Trustee, refund to the Trustee, for deposit into the OTF Grant Account, an amount equal to the amount so used or the portion thereof as specified by the Trustee.

5. The Trustee may require withdrawals from the Trust Account to be made on the basis of statements of expenditures for expenditures under contracts for goods not exceeding \$200,000 equivalent, under contracts with consultants' firms not exceeding \$100,000 equivalent, and under contracts with individual consultants not exceeding \$50,000 equivalent, under such terms and conditions as the Trustee shall specify by notice to the Recipient.

6. Without limitation on any other provision hereof, import duties and other direct taxes are not eligible for grant funding.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient in the effort to reduce ODS consumption in Pakistan.

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

Subgrants

1. Provision of Subgrants for Subprojects in all ODS user and production industries including refrigeration/air conditioning, foam, aerosols, solvents and halons; and

2. Provision of Subgrants for Subprojects for non-ODS production; ODS closure; and switching from ODS to non-ODS technology.

* * *

The Project is expected to be completed by December 31, 2000.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

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.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$13,000,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Trustee of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any bid for contracts, the proposed procurement plan for the project shall be furnished to the Trustee 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 Trustee and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply. NDFC will review contracts estimated to cost \$200,000 equivalent or more and the Trustee will review contracts estimated to cost \$1,000,000 equivalent or more. Prior review will be carried out for all proprietary items.

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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Bank shall be used.

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

SCHEDULE 4

Terms and Conditions of Subgrants

1. The Recipient shall select and submit Subprojects, for approval by the Trustee, in accordance with the Operating Policy Guidelines.

2. For the purpose of carrying out Subprojects, the Recipient shall make available a portion of the Grant to Subproject Beneficiaries under Subgrant agreements to be entered into between the Recipient, represented by NDFC and each of the Subproject Beneficiaries upon terms and conditions, satisfactory to the Trustee, including the following:

Terms and Conditions of Subgrants:

Subgrants shall be provided on terms whereby the Recipient shall obtain, through the Subgrant Agreements, rights adequate to protect the interests of the Trustee and the Recipient, including but without limitation, the right to:

(a) require the Subproject Beneficiary to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical, financial, managerial, environmental and ecological standards;

(b) require that:

(i) the goods and services to be financed out of the proceeds of the OTF Grant shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and

(ii) such goods and services shall be used exclusively for the purposes and in furtherance of the objectives of the Project;

(c) require the Subproject Beneficiary to comply with obligations similar to the financial covenants set forth in Section 4.01 of this Agreement;

(d) inspect, by itself or jointly with representatives of the Trustee, if the Trustee shall so request, the goods and plants included in the Subproject, the operation thereof and any relevant records and documents;

(e) require that:

(i) The Subproject Beneficiary shall take out and maintain with responsible insurers such insurance against such risks and in such amounts, as shall be consistent with sound business practices; and

(ii) Without any limitation upon the foregoing, such insurance shall cover the hazards incident to the acquisition, transportation and

delivery of goods financed out of the proceeds of the OTF Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely useable by the Subproject Beneficiary to replace or repair such goods;

(f) obtain all such information as the Trustee shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Subproject Beneficiary and to the benefits derived from the Subproject;

(g) obtain upon demand the refund of any part of the proceeds of the OTF Grant (together with payment of interest thereon at the commercial rate from the date of payment until repayment thereof) which, in the opinion of the Recipient or the Trustee, has been misused by the Subproject Beneficiary; and

(h) suspend or terminate the right of the Subproject Beneficiary to the use of the proceeds of the OTF Grant upon failure by the Subproject Beneficiary to perform its obligations under the Subgrant Agreement.

3. The extent of funding provided for Subprojects through Subgrants shall be proportional to ownership of the equity of the Subproject Beneficiary by Pakistani nationals or nationals from developing countries, determined in accordance with methodology and criteria acceptable to the Trustee.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) The term "Eligible Category" means Categories (1) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) The term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the OTF Grant allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) The term "Authorized Allocation" means an amount equivalent to five hundred thousand dollars (\$500,000) to be withdrawn from the OTF Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

3. After the Trustee has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Trustee a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Trustee shall, on behalf of the Recipient, withdraw from the OTF Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have requested.

(b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Trustee requests for deposits into the Special Account at such intervals as the Trustee shall specify.

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Trustee shall, on behalf of the Recipient, withdraw from the OTF Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. All such deposits shall be withdrawn by the Trustee from the OTF Grant Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall

have been justified by said documents and other evidence.

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

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

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

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

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

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

Thereafter, withdrawal from the OTF Grant Account of the remaining unwithdrawn amount of the OTF Grant allocated to the Eligible Category shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

6. (a) If the Trustee shall have determined at any time that any payment out of the Special Account:

(i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or

(ii) was not justified by the evidence furnished to the Trustee, the Recipient shall, promptly upon notice from the Trustee:

(A) provide such additional evidence as the Trustee may request; or

(B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

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

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

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



