Mr. Zheng Xiaosong  
Director General  
International Department  
Ministry of Finance  
People’s Republic of China  

Dear Mr. Zheng,  

Re: Grant Agreement for Market Readiness Proposal – Preparation Phase  
Partnership for Market Readiness (PMR) Multi-Donor Trust Fund  
Grant No. TF010864  

The Assembly of the Partnership for Market Readiness (PMR), of which China is an Implementing Country Participant, has established two phases in which an Implementing Country Participant may request for financial support. These are: (i) the Preparation Phase - formulation of the Market Readiness Proposal by the Implementing Country Participant; and (ii) the Implementation Phase - implementation of the Market Readiness Proposal by the Implementing Country Participant. The Preparation Phase Installment (or “Grant”) in the amount of US$ 350,000 will be made available to an Implementing Country Participant to assist in its formulation of the Market Readiness Proposal upon the allocation by the governing body of the PMR and subject to the availability of funds.

In response to the request for financial assistance made on behalf of People’s Republic of China (“Recipient”), the Partnership Assembly has decided to allocate the Preparation Phase Installment through Resolution No. PA 1/2011-4.

I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided under the Partnership for Market Readiness Multi-Donor Trust Fund, proposes to extend to the Recipient a Preparation Phase Installment in an amount not to exceed three hundred and fifty thousand United States Dollars (US$ 350,000) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the activities described in the Annex (Preparation Phase Activities). This Preparation Phase Installment is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient may withdraw the Preparation Phase Installment proceeds subject to the availability of such funds.

The World Bank may subsequently enter into a supplementary agreement to this Agreement with the Recipient for the purpose of extending a second phase installment to
assist the Implementing Country Participant in its implementation of the Market Readiness Proposal during the Implementation Phase, upon the allocation of the funding by the governing body of the PMR and subject to the availability of funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Preparation Phase Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
Acting as Trustee of the Partnership for Market Readiness (PMR) Multi-Donor Trust Fund

By

Elaine Sun
Acting Country Director, China
East Asia and Pacific Region

AGREED:

[NAME OF RECIPIENT]

By

Name

Wu Jinkang

Title

Deputy Director General

Date: December 26, 2011

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 31, 2010

(2) Disbursement Letter dated Sep 5, 2011, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
ANNEX

PMR Grant No. 010864

Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.**

(a) The Standard Conditions for Grants Made by the World Bank out of Various Funds dated July 31, 2010 ("Standard Conditions"), with the modifications set forth in paragraphs (b), (c) and (d) below, constitute an integral part of this Agreement.

(b) The following term shall be inserted as paragraph 16(bis) of the Appendix to the Standard Conditions:

"16(bis). "Market Readiness Proposal (MRP)" means a proposal to be submitted by an Implementing Country Participant, which sets forth the road map or the plan for putting in place a market instrument."

(c) The following term shall be inserted as paragraph 17(bis) of the Appendix to the Standard Conditions:

"17(bis). "PMR Governance Framework" means the constituting document of the PMR, adopted at the organizational meeting of the PMR, as may be amended from time to time in accordance with its terms."

(d) The definition of the term "Project" in paragraph 18 of the Appendix to the Standard Conditions is replaced to read as follows, and wherever used in the Standard Conditions, the term "Project" is replaced by the term "Preparation Phase Activities":

"‘Preparation Phase Activities” means the activities described in the Grant Agreement in relation to the Recipient’s formulation of a Market Readiness Proposal, for which the Preparation Phase Installment is made.”

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, the PMR Governance Framework, or in this Agreement.

Article II
Execution of Preparation Phase Activities

2.01. **Objectives and Description.** The objective of the Preparation Phase Activities is to assist the Recipient to formulate a Market Readiness Proposal (MRP). The Preparation Phase Activities consist of the following parts:

1. Conducting necessary feasibility studies related to domestic emissions trading schemes the formulation of the MRP from the perspectives of, inter alia:
   - the broader country context of China and its low carbon emissions development strategy and mitigation plan.
• identification of target sector/sub-sector/program/region (Target Sector/Program) for the implementation of market readiness components and market instruments to be supported by the MRP;
• core components to be included in the MRP including assessment of market readiness of the components;
• planning and developing a market instrument, i.e., a domestic emissions trading scheme, to lay out essential readiness elements for a market instrument for the proposed Target Sector/Program; and
• Organization and consultation

2. Developing China’s MRP, including sub-proposals of the MRP for the pilots that will participate in domestic emissions trading scheme;

3. Preparing terms of reference for activities included in the MRP and to be undertaken during the implementation phase;

4. Setting up project management to coordinate PMR activities; and

5. Convening working meetings and consultations with relevant agencies, local officials and relevant stakeholders on the preparation of the MRP and its sub-proposals for the pilots.

2.02. Execution Generally. The Recipient declares its commitment to the objectives of the Preparation Phase Activities. To this end, the Recipient shall carry out the Preparation Phase Activities through the Department of Climate Change of National Development and Reform Commission of China ("Implementing Entity") in accordance with the provisions of (a) Article II of the Standard Conditions, (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”) and this Article II.

2.04. Contributor Visibility and Visit.

(a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the PMR contributor(s)’ support for the Preparation Phase Activities.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the PMR contributor(s) to visit any part of the Recipient’s territory for purposes related to the Preparation Phase Activities.

2.05. Preparation Phase Activities Report and Completion Report.

(a) The Recipient shall prepare the Preparation Phase Activities Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Preparation Phase Activities Report shall cover the period starting from signature of this Agreement until one month after the Market Readiness Proposal is approved by the governing body of the PMR, or December 31June 30, 2012, whichever is earlier.

(b) The Completion Report, which will cover the activities during the Implementation Phase, shall be furnished to the World Bank not later than six-months after the Closing Date.
2.06. **Financial Management.**

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Preparation Phase Activities are prepared and furnished to the World Bank not later than one month after the end of each calendar half-year, covering the six month period in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Preparation Phase Activities audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover entire period during which withdrawals from the Grant Amount were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement.**

(a) **General.** All services required for the Preparation Phase Activities and to be financed out of the proceeds of the Preparation Phase Installment shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I (excluding paragraph 1.25) and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(ii) The provisions of this section.

(b) **Definitions.** The capitalized terms used in the following paragraphs of 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 Sections II, III, IV and V of the Consultant Guidelines.

(c) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection; and

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which the Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Well-established Private Sector Procurement Methods or Commercial Practices which have been found acceptable to the World Bank; (G) Selection of consultants under Indefinite Delivery Contract or Price Agreement; (H) Selection of
Individual Consultants; and (I) Single-source procedures for the Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: each contract for consultants’ services provided by a firm estimated to cost the equivalent of $100,000 or more and all contracts for consulting firms and individual consultants procured by single-source selection procedures. All other contracts shall be subject to Post Review by the World Bank.

**Article III**
**Withdrawal of Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Preparation Phase Installment 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 may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Preparation Phase Installment (“Category”), the allocations of the amounts of the Preparation Phase Installment to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Preparation Phase Installment Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
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<tbody>
<tr>
<td>(1) Consultants’ services</td>
<td>270,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Working meetings and Workshops</td>
<td>40,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Operating Costs</td>
<td>40,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>350,000</strong></td>
<td><strong>100%</strong></td>
</tr>
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</table>

For the purpose of Section 3.01, (i) the term “Working meetings and Workshops” means the costs associated with working meetings and workshop participation of personnel involved in the implementation of the Preparation Phase Activities including travel and subsistence costs for working meetings and workshop participants, costs associated with securing the services of participants and workshop speakers, rental of working meetings and workshop facilities, preparation and reproduction of working meetings and workshop materials, and other costs directly related to working meetings and workshop preparation and implementation; and (ii) the term “Operating Costs” means the operating costs incurred on account of the implementation of the Preparation Phase Activities including office supplies and consumables, utilities, communications, mass media and printing services, vehicle rental, operation and maintenance,
charges for the opening and operation of bank accounts required for the Preparation Phase Activities, and travel, lodging and per diems, but excluding salaries of officials of the Recipient’s civil service.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2015.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient's Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Minister of the Ministry of Finance.

4.02. **Recipient's Address.** 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

<table>
<thead>
<tr>
<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
<th>Email:</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>86-10 6855 3102</td>
<td>86-10 6855 1125</td>
<td></td>
</tr>
</tbody>
</table>

4.03. **World Bank’s Address.** 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

<table>
<thead>
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<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
</tr>
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<tbody>
<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
<td></td>
</tr>
</tbody>
</table>