

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF091967

HV Project Agreement

(Neretva and Trebisnjica Management Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

and

HRVATSKE VODE

Dated September 9, 2008

GEF TRUST FUND GRANT NUMBER TF091967

PROJECT AGREEMENT

Agreement dated September 9, 2008, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("World Bank"), acting as an implementing agency of the Global Environment Facility ("GEF"), and HRVATSKE VODE ("HV") ("Project Agreement") in connection with the GEF Trust Fund Grant Agreement ("Croatia GEF Agreement") of same date between REPUBLIC OF CROATIA ("Recipient") and the World Bank. The World Bank and HV hereby agree as follows:

ARTICLE I - GENERAL 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 the Appendix to the Croatia GEF Agreement.

ARTICLE II - PROJECT

- 2.01. HV declares its commitment to the objectives of the Project. To this end, HV shall: (a) through its representatives on the ISCW, CC and TA, participate in coordinating activities under the Project between the Recipient and Bosnia and Herzegovina, and for giving guidance on solving common problems for Parts A. (iii), B.(ii) and D.(i) of the Project in accordance with the MOU; and (b), through the Croatia PIT, carry out the Project in accordance with the provisions of Article II of the Standard Conditions and provide promptly as needed, the funds, facilities, services and other resources required for its respective part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the World Bank and HV shall otherwise agree, HV shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

- 3.01. HV's Representative is the General Director.

3.02. The Bank's Address is:

International Bank for
Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

3.03. HV's Address is:

Hrvatske Vode
Ulica grada Vukovara 220
10000 Zagreb
Republic of Croatia

Facsimile:

+385-1-6151-793

AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andras Horvai

Authorized Representative

HRVATSKE VODE

By /s/ Jadranko Husaric

Authorized Representative

SCHEDULE

Execution of the Project

Section I. Institutional Arrangements

HV shall carry out the Project in accordance with the following institutional arrangements:

1. The ISWC and the CC, with the technical guidance of the TA, as necessary, shall be responsible for coordinating activities under the Project between the Recipient and Bosnia and Herzegovina, and for giving guidance on solving common problems in a manner consistent with the provisions of the MOU.
2. HV, through the Croatia PIT, shall appoint and thereafter maintain at all times during Project implementation, a qualified representative on the CC and representatives on the TA from time to time, as necessary, all with terms of reference and resources satisfactory to the World Bank, and shall cause the representatives at all times to participate in the performance of the obligations of the CC and TA under the Project in a timely and effective manner, and in accordance with the terms of the Operational Manual and the MOU.
3. HV shall maintain the Croatia PIT at all times during Project implementation, with terms of reference and resources satisfactory to the World Bank, and with competent staff in adequate numbers.
4. HV, through the Croatia PIT, shall have responsibility for implementation, financial management, procurement, reporting and evaluation of the Project, and for purposes of Parts A. (iii), B.(ii) and D.(i) of the Project, shall be supported by the ISWC, the CC and the TA, as necessary, in accordance with the MOU.

Section II. Implementation Covenants

1. HV and the Croatia PIT shall:
 - (a) duly perform their obligations under the Operational Manual, the EMP, the EMF and the MOU in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and
 - (b) not amend or waive, or permit to be amended or waived the Operational Manual, the EMP, the EMF or the MOU or any provisions of any one thereof, except with the prior written approval of the World Bank.

2. HV, through the Croatia PIT, shall: (a) duly perform its obligations under this Agreement and the HV Subsidiary Grant Agreement, as the case may be, in accordance with the river basin management plan to be prepared under Part A.(iii) of the Project and acceptable to the World Bank; and (b) in the event that said plan is amended or waived, ensure that any such amendment or waiver is acceptable to the World Bank.

Section III. Subsidiary Agreement

1. To facilitate the carrying out and financing of the Project, HV shall enter into a subsidiary agreement with the Recipient pursuant to which the Recipient shall make the proceeds of the Grant available to HV ("HV Subsidiary Grant Agreement"), under terms and conditions approved by the World Bank, which shall include the following: the Recipient shall on-grant the proceeds of the Grant to HV in United States Dollars as set forth in the table in Part A.2, Section IV of Schedule 2 to the Croatia GEF Agreement.

2. HV shall exercise its rights under the HV Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, HV shall not assign, amend, abrogate or waive the HV Subsidiary Grant Agreement or any of its provisions.

Section IV. Sub-Projects

1. For purposes of Part D.(ii)(b) of the Project, HV shall make grants to Beneficiaries under the Small Grants Program in accordance with eligibility criteria and procedures set forth in the Operational Manual, and acceptable to the World Bank, which shall include, *inter alia*, the following: grants made under the Small Grants Program shall be selected, appraised, implemented and evaluated in accordance with the principles and procedures set forth in the Operational Manual, the Procurement Guidelines, the EMP and the EMF.

2. HV shall make grants under the Small Grants Program under a Small Grants Program Grant Agreement with the respective Beneficiary on terms and conditions approved by the World Bank, which shall include the following:

- (a) grants made under the Small Grants Program shall be denominated in HRK; and
- (b) HV shall obtain rights adequate to protect its interests and those of the World Bank, including the right to:
 - (i) suspend or terminate the right of the Beneficiary to use the proceeds of the grant made under the Small Grants Program, or obtain a refund of all or any part of the amount of the grant made under the Small Grants Program, upon the Beneficiary's failure

to perform any of its obligations under the Small Grants Program Grant Agreement; and

- (ii) require each Beneficiary to: (A) carry out its obligations under the Small Grants Program Grant Agreement with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the World Bank, including in accordance with the EMF and the EMP; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Small Grants Program Grant Agreement in accordance with the provisions of this Agreement and the Procurement Guidelines; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the World Bank, the progress of the sub-project and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the World Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project; and (2) at the World Bank's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the World Bank, in accordance with consistently applied auditing standards acceptable to the World Bank, and promptly furnish the statements as so audited to the Recipient and the World Bank; (F) enable the Recipient and the World Bank to inspect the sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the World Bank all such information as the Recipient or the World Bank shall reasonably request relating to the foregoing.

3. HV shall exercise its rights under each Small Grants Program Grant Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, HV shall not assign, amend, abrogate or waive any Small Grants Program Grant Agreement or any of its provisions.

Section V. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. HV, through the Croatia PIT, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with Section 2.06 of the Standard Conditions and on the basis of indicators agreed with the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient not later than forty five (45) days after the end of the period covered by such report for incorporation and forwarding by the Recipient to the World Bank of the overall Project Report.

2. HV, through the Croatia PIT, shall:

- (a) prepare, under terms of reference satisfactory to the World Bank, and furnish to the World Bank, on or about thirty (30) months after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to the preceding paragraph 1, on the progress achieved in the carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out the Project and the achievement of the objectives thereof during the period following such date; and
- (b) review with the World Bank, by thirty one (31) months after the Effective Date, or such later date as the World Bank shall request, the report referred to in the preceding sub-paragraph (a), 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 said report and the World Bank's views on the matter.

3. HV, through the Croatia PIT, shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. HV, through the Croatia PIT, shall maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. HV, through the Croatia PIT, shall prepare and furnish to the World Bank not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project, covering such quarter, in form and substance satisfactory to the World Bank.

3. HV, through the Croatia PIT, shall have the Financial Statements for the Project audited by independent auditors acceptable to the World Bank and on terms of reference acceptable to the World Bank in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audits of the Financial Statements shall cover the period of one (1) fiscal year. 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 VI. Procurement

All goods, works and services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Section III of Schedule 2 to the Croatia GEF Agreement.