

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF054908

Global Environment Facility Trust Fund Grant Agreement

(Danube River Enterprise Pollution Reduction Project)

between

SERBIA AND MONTENEGRO

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated June 22, 2005

GEF TRUST FUND GRANT NUMBER TF054908

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 22, 2005, between SERBIA AND MONTENEGRO (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 94-2);

(C) the Recipient, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested assistance from the resources of the GEF Trust Fund for funding the Project, and said request having been approved in accordance with the provisions of the Instrument for the Establishment of the Restructured Global Environment Facility approved under Resolution 94-2;

(E) the Recipient intends to obtain from the Kingdom of Sweden (Sweden) a grant in an amount of approximately \$4,000,000 equivalent (the Sida Grant) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and Sweden (the Sida Grant Agreement);

(F) the Recipient intends to contract from the European Agency for Reconstruction (EAR) a grant in an amount of approximately □100,000 (the EAR Grant) to assist in financing Part C the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and EAR (the EAR Grant Agreement); 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;

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 Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), 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 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (c), (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 (a) and (c), 12.02 (a) and (c), 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 (6), 6.02 (f) and 5.01 (a) 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;

- (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 GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the GEF Trust Fund Grant Agreement, the proceeds of the GEF Trust Fund Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods, works or services to be financed under the GEF Trust Fund Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Bank’s policy of requiring economy and efficiency in the use of the proceeds of its grants. To that end, if the Bank shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the GEF Trust Fund Grant is excessive or otherwise unreasonable, the Bank may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item in the GEF Trust Fund Grant Agreement as required to be consistent with such policy of the Bank.”;

- (vii) a new subparagraph is added after subparagraph (o) 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.”; and

- (viii) the words “corrupt or fraudulent” in paragraph (c) of Section 6.03 are replaced with the words “corrupt, fraudulent, collusive or coercive”.

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) “EMP” means the plan included in the Operational Manual and describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Bank.

- (b) “Euro” or “€” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty of European Union.

- (c) “Eligible Categories” means Categories (1) and (2) set forth in the table in paragraph 1 of Part A of Schedule 1 to this Agreement.

- (d) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services, training, incremental operating costs and amounts paid (of if the Bank shall so agree, to be paid) by the Recipient on account of withdrawals made by a Participating Enterprise under a Nutrient Reduction Sub-grant to meet the reasonable cost of goods, works and services required for the Nutrient Reduction Sub-project.

- (e) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 (a) of this Agreement.

- (f) “HMS” means the Republic Hydro Meteorological Service, a governmental organization established on January 7, 1947, pursuant to a decision of the Federal Peoples Republic of Yugoslavia, and reestablished by the Parliament of Serbia on February 26, 2004, pursuant to the Law on Ministries (Foundation No. 7003706), or any successor or successors thereto.

- (g) “IAH” means the Institute of Animal Husbandry, a scientific research institution established on July 2, 1952, pursuant to Government of Serbia Decision No. 273/2, and re-registered by the Commercial Court of Belgrade on October 21, 1998 (Foundation No. 7017537), or any successor or successors thereto.

- (h) “MAFWM” means the Ministry of Agriculture, Forestry and Water Management of the Republic of Serbia, or any successor or successors thereto.

- (i) “MOF” means the Ministry of Finance of the Republic of Serbia, or any successor or successors thereto.

(j) “MSEP” means the Ministry of Science and Environmental Protection of the Republic of Serbia, or any successor or successors thereto.

(k) “Nutrient Reduction Sub-grants” means grants referred to in Section 3.03 (c) of this Agreement, and made or proposed to be made by the MAFWM, on behalf of the Republic of Serbia, to the Participating Enterprises, pursuant to Nutrient Reduction Sub-grant Agreements, to finance the Nutrient Reduction Sub-projects; and “Nutrient Reduction Sub-grant” means each and any such grant.

(l) “Nutrient Reduction Sub-grant Agreements” means agreements between the MAFWM and the Participating Enterprises, entered pursuant to Section 3.03 (c) of this Agreement, as such agreements may be amended from time to time; and “Nutrient Reduction Sub-grant Agreement” means each and any such agreement.

(m) “Nutrient Reduction Sub-projects” means specific investment projects referred to in Section 3.03 (c) of this Agreement, and selected and approved pursuant to Section 3.03 (c) of this Agreement; and “Nutrient Reduction Sub-project” means each and any such project.

(n) “Operational Manual” means the manual describing the operational rules and procedures of Project implementation, satisfactory to the Bank, adopted by the Project Technical Advisory Committee on February 28, 2005, as the same may be amended from time to time.

(o) “PIU” means a project implementation unit established by the MAFWM and referred to in Section 3.03 (a) of this Agreement, or any successor or successors thereto.

(p) “Participating Enterprises” means farms and slaughterhouses referred to in Part B.1 and Part B.2 of Schedule 2 to this Agreement, and selected in accordance with the provisions of Section 3.03 (c) of this Agreement.

(q) “Procurement Plan” means the Recipient’s procurement plan, dated December 16, 2004, covering the entire Project implementation period, as the same shall be updated from time to time in accordance with the provisions of Section 3.04 (b) to this Agreement.

(r) “Project Technical Advisory Committee” means a committee referred to in paragraph 1 (a) of Schedule 3 to this Agreement, with six voting members, one from each of the MAFWM Veterinary, Phytosanitary and Water Directorates, the MSEP, the Secretariat for Environment and Sustainable Development of the Autonomous Province of Vojvodina, and one agricultural economist designated by the MAFWM, chaired by the Assistant Minister of the MAFWM responsible for agro-environmental issues, who normally shall not be a voting member, except when necessary to cast a tie-breaking vote,

plus five non-voting members representing the private sector, non-governmental organizations, and local municipal authorities from Project implementation areas, or any successor or successors thereto.

(s) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the GEF Trust Fund Grant Account referred to in paragraph 5 of Part A of Schedule 1 to this Agreement.

(t) “SSI” means the Soil Science Institute, a scientific research institution, registered by the Commercial Court of Belgrade on October 18, 2002 (Foundation No. 07017561), or any successor or successors thereto.

(u) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement.

(v) “Sub-grant Agreement” means the agreement entered into between the Recipient and the Republic of Serbia, referred to in Section 3.02 (a) of this Agreement, as the same may be amended from time to time.

(w) “TIC” means the training and information center referred to in Part B.3 of Schedule 2 to this 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 equal to nine million twenty thousand Dollars (\$9,020,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Recipient on account of withdrawals made by a Participating Enterprise under a Nutrient Reduction Sub-grant to meet the reasonable cost of goods, works and services required for the Nutrient Reduction Sub-project in respect of which the withdrawal from the GEF Trust Fund Grant Account is requested; and (ii) for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services, training and incremental operating costs required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

Section 2.03. The Closing Date shall be March 31, 2010, 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. 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 ensure that the Republic of Serbia carries out the Project with due diligence and efficiency and in conformity with appropriate administrative, engineering, financial and technical 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.

Section 3.02 (a) Without limitation upon the provisions of Section 3.01, and except as the Bank and the Recipient shall otherwise agree, the Recipient, in order to ensure the implementation of the Project, shall make the proceeds of the Grant available to the Republic of Serbia, under a sub-grant agreement (the Sub-grant Agreement), to be entered between the Recipient and the Republic of Serbia, under terms and conditions which shall have been approved by the Bank.

(b) The Recipient shall exercise its rights under the Sub-grant Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Grant, and, except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, repeal or waive the Sub-grant Agreement, or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01, and except as the Bank and the Recipient shall otherwise agree, the Recipient shall ensure that the Republic of Serbia:

(a) maintains, during the term of the Project, the Project Technical Advisory Committee and the PIU, with authority, staff and resources necessary and appropriate for the Project;

(b) implements the Project in accordance with the Implementation Program set forth in Schedule 3 to this Agreement, and the Operational Manual, including the terms and conditions set forth in the EMP; and

(c) grants, out of the proceeds of the Grant allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement, to the Participating Enterprises the amount of financing (Nutrient Reduction Sub-grants) required by the Participating Enterprises in respect of their respective sub-projects (Nutrient Reduction Sub-projects), under agreement (Nutrient Reduction Sub-grant Agreements) to be entered into by the MAFWM and each Participating Enterprise, in accordance with the procedures, eligibility criteria, and on terms and conditions satisfactory to the Bank, including, without limitation, the procedures, eligibility criteria,

and terms of conditions set forth or referred to in Schedule 5 to this Agreement, and in the Operational Manual;

(d) exercises its rights under the Nutrient Reduction Grant Agreements in such a manner as to protect the interests of the Borrower, Republic of Serbia and the Bank, and to accomplish the purposes of the Project, and shall not assign, amend, abrogate or waive any Nutrient Reduction Sub-grant Agreement or any provision thereof.

Section 3.04. (a) Except as the Bank shall otherwise agree, the 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 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank's approval.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall ensure that the Republic of Serbia maintains a financial management system, including records and accounts, and prepares financial statements, all in accordance with consistently applied accounting standards acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall ensure that the Republic of Serbia shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five (5) months after the end of each such year (or such other period agreed to by the Bank): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Bank), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and

- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the GEF Trust Fund Grant Account were made on the basis of reports referred to in paragraph 5 of Part A of Schedule 1 to this Agreement (Report-based Disbursements), or on the basis of statements of expenditure, the Recipient shall ensure that the Republic of Serbia shall:

- (i) retain until at least one (1) year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the GEF Trust Fund Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the reporting obligations set forth in paragraph 2 of Schedule 3 to this Agreement, the Recipient shall ensure that the Republic of Serbia prepares and furnishes to the Bank a financial monitoring report (Financial Monitoring Report), in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the GEF Trust Fund Grant, and explaining variances between the actual and planned uses of such funds;
- (ii) sets forth the Special account for the Project, showing the period opening balance, movements during the period and the period closing balance;
- (iii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains the variances between the actual and planned Project implementation; and
- (iv) sets forth the status of procurement under the Project, as of the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Bank not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

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) subject to subparagraph (b) of this paragraph, the right of the Recipient to withdraw the proceeds of the Sida Grant or the EAR Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Sida Grant Agreement or the EAR Grant Agreement.

(b) Paragraph (a) of this Section 5.01 shall not apply if the Recipient establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, or termination is not caused by the failure of the Recipient to perform any of its obligations under the Sida Grant Agreement or the EAR Grant Agreement; and (ii) adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effectiveness, Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the Sub-Grant Agreement has been executed and all conditions to the effectiveness of such agreement have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of paragraph (c) of Section 12.02 of the General Conditions, to be included in the opinions to be furnished to the Bank, namely that the Sub-grant Agreement has been duly authorized and executed by the Recipient and the Republic of Serbia, and is legally binding upon the parties thereto.

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 all their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister for International Economic Relations 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 for International Economic Relations
Bul. Mihajila Pupina 2
Belgrade 11070
Serbia and Montenegro

Facsimile:

381 11 311-2979

For the Bank:

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:

248423 (MCI)
64145 (MCI)

Facsimile:

(202) 477-6391

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

SERBIA AND MONTENEGRO

By /s/ Predrag Ivanovic

Authorized Representative

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

By /s/ Carolyn Jungr

Authorized Representative

SCHEDULE 1**Withdrawal of the Proceeds of the GEF Trust Fund Grant****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 Dollars)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods, works, consultants' services, training, and incremental operating costs	2,620,000	89%
(2) Nutrient Reduction Sub-grants	5,500,000	100%
(3) Unallocated	<u>900,000</u>	
TOTAL	<u>\$9,020,000</u>	

2. For the purposes of this Schedule:

(a) the term "incremental operating costs" means reasonable and necessary incremental expenditures, as approved by the Bank on the basis of annual budgets and plans acceptable to the Bank, and incurred by the Project Technical Advisory Committee, MAFWM, MSEP, and PIU with respect to Project implementation, management and monitoring, including office space, office supplies, vehicle operation and travel costs, communication expenses, and translation; and

(b) the term "training" means expenditures, as approved by the Bank, on the basis of budgets and plans acceptable to the Bank, and incurred in connection with training, workshops, seminars and study tours to be carried out under the Project, including travel costs and per-diem allowances for the trainees, and other training-related expenditures as agreed with the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Bank may require withdrawals from the GEF Trust Fund Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$100,000 equivalent per contract; (b) works costing less than \$100,000 equivalent per contract; (c) services of individual consultants costing less than \$25,000 equivalent per contract; (d) services of consulting firms costing less than \$100,000 equivalent per contract; (e) training; (f) incremental operating costs; and (g) amounts paid (or if the Bank shall so agree, to be paid) by the Recipient on account of withdrawals made by a Participating Enterprise under a Nutrient Reduction Sub-grant to meet the reasonable cost of goods, works and services required for the Nutrient Reduction Sub-project, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. Upon receipt by the Recipient of a written notice from the Bank, the Recipient may request withdrawals from the GEF Trust Fund Grant Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the Financial Management Report and any other information as the Bank shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the GEF Trust Fund Grant Account, the Recipient shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

6. If the Bank shall have determined at any time that any amount of the GEF Trust Fund Grant was used in a manner inconsistent 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.

B. Special Account

1. The Recipient may open and maintain in Euro a special deposit account in a bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

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

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

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

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

(a) if the Bank, at any time, is not satisfied that the reports referred to in paragraph 5 of Part A of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures 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 Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the 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 Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Bank determines at any time that any payment out of the 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 Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank 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 Bank determines at any time that any amount outstanding in the 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 Special Account.

(d) Refunds to the Bank made pursuant to subparagraphs (a), (b) or (c) of this paragraph 6 shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$600,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$300,000 until the aggregate amount of withdrawals from the GEF Trust Fund Grant Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$2,000,000.

2. 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 Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to paragraph 3 of Part B of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account

of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
2. 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 Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in paragraph 5 of Part A of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to reduce nutrient flows (nitrogen and phosphorus) into bodies of water connected to the Danube River from selected Republic of Serbia enterprises.

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

Part A: Policy and Regulatory Reform

Strengthening of the Republic of Serbia policy and regulatory framework regulating nutrient run-off and discharge from livestock farms and slaughterhouses, in accordance with the European Union Council Directive Concerning the Protection of Waters Against Pollution Caused by Nitrates From Agricultural Sources (91/676/EEC, dated December 12, 1991 (Nitrate Directive)), through the development of a Code of Good Agricultural Practice, identification of vulnerable areas in the Republic of Serbia, transposition of the Nitrate Directive into the draft law on fertilizers, and development of an implementation plan for the Nitrate Directive, through the provision of goods, training and services.

Part B: Nutrient Reduction

1. Grants to eligible livestock farms located in Novi Sad, Vrbas, Sabac, and Pozarevac and surrounding municipalities (the Participating Enterprises) to improve manure management, through the financing of nutrient management plans, construction of manure storage facilities (works) and procurement of manure spreading equipment.
2. Grants to eligible animal slaughterhouse enterprises located in the Republic of Serbia (the Participating Enterprises) to improve animal waste management, through the financing of goods, works and services for animal waste separation, treatment and land application facilities.
3. Establishment and operation of a training and information center (TIC) under the IAH to provide advice on proper nutrient, manure and slaughterhouse animal waste management, through the financing of goods, works, training and services.
4. Raising of awareness among farmers and slaughterhouse enterprises regarding proper nutrient, manure and animal slaughterhouse waste management, and availability of Sub-grants, and assistance and advice to the potential Participating Enterprises in the preparation of Sub-projects proposals, through the financing of goods, training and services to be provided by local advisory units.

Part C: Water and Soil Quality Monitoring, Public Awareness Raising and Replication Strategy

Assessment through monitoring of the Project impact on water and soil quality in the Danube River Basin, raising awareness of local enterprises, communities and policy makers regarding water pollution from livestock farms and slaughterhouses, and regarding improvements made under the Project, and preparation of a replication strategy, through the financing of goods, works, training and services.

Part D: Project Management, Implementation and Monitoring

Assistance to the Project Technical Advisory Committee, MAFWM, MSEP and PIU in the management, implementation and monitoring of the Project, through the provision of goods, training, and services, including the audit of the accounts and financial statements referred to in Section 4.01 (b) of this Agreement, and the financing of incremental operating costs.

* * *

The Project is expected to be completed by September 30, 2009.

SCHEDULE 3

Implementation Program

1. The Recipient shall ensure that the Government of the Republic of Serbia shall be responsible for the overall Project implementation and direction, and that the Republic of Serbia shall ensure that:

(a) the Project Technical Advisory Committee shall be responsible for the overall direction and strategic oversight of the Project, coordination of activities among the ministries and agencies of the Republic of Serbia involved in Project implementation, overall Project monitoring, evaluation and reporting, and approval of Nutrient Reduction Sub-grants, annual work plans, and the Procurement Plan and revisions thereto; PIU staff shall serve as the secretariat of the Committee, and the PIU director shall be an ex-officio, non-voting member of the Committee;

(b) the MAFWM shall be responsible, with the assistance of the PIU, for the day-to-day aspects of implementing Parts A and B of the Project and, jointly with other agencies and Ministries of the Republic of Serbia, of implementing Parts C and D of the Project, including: (i) procurement; (ii) financial management; (iii) supervision and monitoring of Nutrient Reduction Sub-projects; (iv) contracting with and supervision of the activities of the TIC/IAH, local advisory units and SSI; and (v) monitoring, evaluation and reporting of Project-related activities under its control;

(c) the MSEP shall be responsible, with the assistance of the PIU, and jointly with the MAFWM, for the implementation of Parts C and D of the Project, in particular day-to-day technical, environmental and operational aspects of implementation, including: (i) procurement and financial management (through the MAFWM/PIU); (ii) stakeholder participation and public awareness campaigns; (iii) contracting with and supervision of the activities of the HMS; and (iv) monitoring, evaluation and reporting of Project-related activities under its control;

(d) the TIC, under the IAH, shall be responsible for the provision of advice to the Participating Enterprises and other interested parties on proper nutrient, manure and waste management under Part B.3 of the Project; the MAFWM shall enter into an agreement with the IAH which shall discuss, inter alia, the scope of TIC work, the parties' rights and responsibilities, and terms of TIC remuneration;

(e) the HMS shall be responsible, under Part C of the Project, for the assessment of the impact of improved farm nutrient management by selected Participating Farms on surface and ground water quality; the MAFWM shall enter into an agreement with the HMS which shall discuss, inter alia, the scope of HMS work, the parties' rights and responsibilities, and terms of HMS remuneration; and

(f) the SSI shall be responsible for the assessment of Project impact on the soil quality in the Danube River Basin under Part C of the Project; the MAFWM shall enter into an agreement with the SSI which shall discuss, inter alia, the scope of SSI work, the parties' rights and responsibilities, and terms of SSI remuneration.

2. The Recipient shall ensure that the Republic of Serbia shall:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Recipient and 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, no later than twenty four (24) months following the date of this Agreement, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) of this paragraph 2, 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, no later than twenty six (26) months following the date of this Agreement, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph 2, 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.

3. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Recipient shall ensure that the Republic of Serbia shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Republic of Serbia and the Bank, a plan for the continued achievement of the Project's objectives; and

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

SCHEDULE 4

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA GEF Trust Fund Grants" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Works estimated to cost less than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions:

Improvement of National Competitive Bidding Procedures.

- (i) Eligibility: foreign bidders shall not be precluded from bidding, and no preference of any kind shall be given to national bidders.
- (ii) Procedures: "Open Local Competitive Bidding" procedures shall be followed in all cases. Invitations to bid shall be advertised in

at least one widely circulated national daily newspaper, allowing a minimum of thirty (30) days for the preparation and submission of bids.

- (iii) Pre-qualification: when pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents.
- (iv) Participation by government-owned enterprises: government-owned enterprises in Serbia and Montenegro shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the government. Such enterprises shall be subject to the same bid and performance security requirements as other bidders.
- (v) Bidding documents: procuring entities shall use the appropriate standard bidding documents for the procurement of works which shall contain draft contract and conditions of contract, satisfactory to the Bank.
- (vi) Submission of bids: bidders may, at their option, deliver bids either in person, by courier service, or by mail at any time prior to the deadline set the submission of bids.
- (vii) Bid opening and bid evaluation: bids shall be opened in public and, if two envelopes are submitted for technical and price components, both shall be opened simultaneously. The time for the bid opening shall be the same as for the deadline for receipt of bids or immediately thereafter; and shall be announced, together with the place for bid opening, in the bidding documents. Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be granted without the prior approval of the Bank. Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid. Negotiations shall not be allowed with the lowest evaluated bidder or any other bidder.

- (viii) Price adjustment: civil works contracts of long duration (i.e., more than eighteen (18) months) shall contain an appropriate price adjustment clause.
- (ix) Rejection of bids: all bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (x) Contracts: all contracts shall be in writing, signed and stamped by authorized signatories of the purchaser and the supplier, and shall contain identical terms and conditions of contract to those included in the bidding documents.
- (xi) Securities: bid securities shall not exceed two percent (2%) of the estimated cost of the contract; performance securities shall not exceed ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The wording of all such securities shall be included into the bidding documents and be acceptable to the Bank.

2. Shopping. Goods and works estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Commercial Practices. Goods and works estimated to cost less than \$500,000 equivalent per contract and to be financed under the Nutrient Reduction Sub-grants may be procured in accordance with commercial practices acceptable to the Bank and described in the Operational Manual.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

4. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

5. Commercial Practices. Services estimated to cost less than \$200,000 equivalent per contract and to be financed under the Nutrient Reduction Sub-grants may be procured in accordance with commercial practices acceptable to the Bank and described in the Operational Manual.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Bank of Procurement Decisions

Except as the Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Bank: (a) each contract for goods, works and services (other than consultants' services) estimated to cost the equivalent of \$100,000 or more and procured on the basis of International Competitive Bidding or National Competitive Bidding, and each contract procured on the basis of Direct Contracting; and (b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more shall be subject to prior approval by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Procedures, Eligibility Criteria and Terms and Conditions of Nutrient Reduction Sub-Grants

Part A: Procedures and Eligibility Criteria

1. No expenditures for goods, works and services required for Nutrient Reduction Sub-project shall be eligible for financing out of the proceeds of the GEF Trust Fund Grant unless the Nutrient Reduction Sub-project and related Nutrient Reduction Sub-grant shall have been reviewed and approved in accordance with the Operational Manual and this Schedule.
2. Each applicant for a Nutrient Reduction Sub-grant shall first be required to submit to the MAFWM (PIU) an expression of interest which shall be in the form and contain the information described in paragraph 3 of this Part A, and other information set forth in the Operational Manual.
3. The PIU shall, on behalf of the MAFWM, promptly review the application and determine whether the applicant meets the eligibility criteria, and shall inform the applicant accordingly. The following criteria shall be used by the PIU in determining the initial eligibility of the Nutrient Reduction Sub-project applicants: (a) ownership (51 percent private ownership); (b) minimum size (for Part B.1 Nutrient Reduction Sub-project applicants); (c) location for Part B.1 Nutrient Reduction Sub-project applicants (eligible livestock farms shall be located in Novi Sad, Vrbas, Sabac, and Pozarevac areas); (d) type of business activity (livestock farm or slaughterhouse); (e) farm registration by the MAFWM, and slaughterhouse registration by the MAFWM; (f) general description of the proposed Nutrient Reduction Sub-project, estimated cost of the sub-project, and estimated percentage of GEF Trust Fund Grant financing and applicant financing.
4. Eligible applicants shall then prepare the Nutrient Reduction Sub-project proposals, in accordance with the terms and conditions set forth in this Schedule and the Operational Manual. Each Nutrient Reduction Sub-grant proposal shall be in the form and have the content set forth in the Operational Manual, and shall include: (a) a description of the proposed Participating Enterprise, including its legal status and ownership, and registration, tax, financial and licensing information; (b) detailed description of the proposed Nutrient Reduction Sub-project, including the legal (land ownership/use), technical, financial, operational, procurement, and environmental aspects of the proposed Nutrient Reduction Sub-project; (c) a draft Nutrient Reduction Sub-grant Agreement; and (d) such other information as the Bank shall reasonably request.
5. The Nutrient Reduction Sub-project proposal shall then be reviewed by the PIU on behalf of the MAFWM. Proposals that are deemed by the PIU to meet the

requirements set forth in this Schedule 5 and the Operational Manual, shall be submitted to the Project Technical Advisory Committee for formal review and approval.

6. Following the approval of the proposed Nutrient Reduction Sub-project Grant by the Project Technical Advisory Committee, as provided under paragraph 5 of Part A of this Schedule 5, the MAFWM and the Participating Enterprise shall execute the Nutrient Reduction Sub-grant Agreement referred to in paragraph 4 (c) of Part A of this Schedule 5, giving the MAFWM rights adequate to protect the interests of the Recipient, Republic of Serbia and the Bank, and containing, inter alia, the terms and conditions set forth in Part C of this Schedule 5.

Part B: Terms and Conditions of the Nutrient Reduction Sub-grant Agreements

1. Each Nutrient Reduction Sub-grant shall be made under a Nutrient Reduction Sub-grant Agreement entered into by the MAFWM and the Participating Enterprise.

2. Each Nutrient Reduction Sub-grant Agreement shall provide that the Nutrient Reduction Sub-grant shall:

- (a) be expressed in the currency of the Republic of Serbia;
- (b) be given on grant basis, but subject to the reimbursement and other terms and conditions set forth in paragraph 3 of this Part B;
- (c) be equal to no more than □20,000 for regular Nutrient Reduction Sub-projects, except that Nutrient Reduction Sub-grants for the demonstration Nutrient Reduction Sub-projects, as defined in the Operational Manual, may be equal to no more than □40,000; and
- (d) contribute: (i) no more than seventy (70) percent of the total cost of the Sub-project in the case of demonstration Nutrient Reduction Sub-projects under Part B.1 of the Project (as described in the Operational Manual); (ii) sixty (60) percent or less in the case of regular Nutrient Reduction Sub-projects under Part B.1 of the Project; and (iii) thirty (30) percent in the case of Nutrient Reduction Sub-projects under Part B.2 of the Project.

3. Each Nutrient Reduction Sub-project Grant Agreement shall require, inter alia, that the Participating Enterprise:

- (a) confirm and/or furnish evidence acceptable to the MAFWM that the Nutrient Reduction Sub-project Grant Agreement has been executed, and is valid and legally binding upon, the Participating Enterprise;
- (b) carry out and operate the Nutrient Reduction Sub-project with due diligence and efficiency under the supervision of qualified and experienced management

assisted by competent staff in adequate numbers, and in accordance with sound technical, financial, environmental, commercial and managerial standards;

(c) maintain records and accounts adequate to reflect in accordance with sound accounting practices the activities and transactions under the Nutrient Reduction Sub-project;

(d) procure the goods, works, and services to be financed by the Nutrient Reduction Sub-grant in accordance with the commercial practices of the Republic of Serbia, and to use such goods, works and services exclusively in the carrying out of the Sub-project;

(e) allow the MAFWM, by itself or jointly with representatives of the Project Technical Advisory Committee or the Bank, if the Bank shall so request, to inspect such goods and the sites, works, plants and construction included in the Nutrient Reduction Sub-project, the operation thereof, and any relevant records and documents, including the financial records of the Participating Enterprise related to the Nutrient Reduction Sub-project;

(f) take out and maintain with responsible insurers such insurance, against such risks and in such amounts as shall be consistent with local business practice, including insurance covering hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Nutrient Reduction Sub-grant to the place of use or installation, any indemnity thereunder to be made to replace or repair such goods;

(g) provide the required co-financing;

(h) prepare and promptly furnish to the MAFWM such information as the MAFWM or the Bank shall reasonably request relating to the administration, operations and financial position of the Participating Enterprise, and the Nutrient Reduction Sub-project;

(i) maintain the Participating Enterprise in a legal form satisfactory to the MAFWM and Bank; and

(j) give the MAFWM the right to suspend or terminate the right of the Participating Enterprise to the use of the proceeds of the Nutrient Reduction Sub-grant upon a failure by the Participating Enterprise to perform its obligations under the Nutrient Reduction Sub-grant Agreement, and the right to require repayment of the Nutrient Reduction Sub-grant if the Participating Enterprise breaches a substantial obligation under the Nutrient Reduction Sub-grant Agreement.