

GEF TRUST FUND GRANT NUMBER TF090845-HR

Global Environment Facility Trust Fund Grant Agreement

(Agricultural Pollution Control Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

acting as an Implementing Agency of the Global Environment Facility

Dated March 11, 2008

GEF TRUST FUND GRANT NUMBER TF090845-HR

**GLOBAL ENVIRONMENT FACILITY TRUST FUND
GRANT AGREEMENT**

AGREEMENT dated March 11, 2008, entered into between the REPUBLIC OF CROATIA (“Recipient”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”), acting as an implementing agency of the Global Environment Facility (“GEF”).

The Recipient and the Bank hereby agree as follows:

**Article I
Standard 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 this Agreement.

**Article II
The Project**

- 2.01. The Recipient declares its commitment to the objectives of the Project described in Schedule 1 to this Agreement (“Project”). To this end, the Recipient: (i) through the MAFRD, shall carry out Parts 1 and 4 of the Project; and (ii) shall cause Parts 2 and 3 of the Project to be carried out by CAEI (“Project Implementing Entity”), all in accordance with the provisions of Article II of the Standard Conditions and the agreement of even date herewith between the Bank and the Project Implementing Entity, as such agreement may be amended from time to time (“Project Agreement”).
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**Article III
The Grant**

- 3.01. The Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to five million United States Dollars (\$5,000,000) (“Grant”) to assist in financing the Project.
- 3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

**Article IV
Additional Remedies: Suspension**

- 4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consist of the following:
 - (a) The Recipient has failed to make payment (notwithstanding the fact that such payment may have been made by a third party) of principal, interest, service charge or any other amount due to IDA or the Bank: (i) under a Financing Agreement; or (ii) under any other agreement between the Recipient and IDA; or (iii) under any agreement between the Recipient and the Bank; or (iv) in consequence of any guarantee extended or other financial obligation of any kind assumed by IDA or the Bank to any third party with the agreement of the Recipient.
 - (b) The Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
 - (c) The Recipient has taken or permitted to be taken any action which would prevent or interfere with the performance by the Project Implementing Entity of its obligations under the Project Agreement.
 - (d) The Project Implementing Entity has failed to perform any obligation under the Project Agreement.
 - (e) IBRD or IDA has declared the Project Implementing Entity ineligible to be awarded a contract financed by IBRD or IDA.
 - (f) As a result of events which have occurred after the date of this Agreement, an extraordinary situation has arisen which makes it improbable that the Project Implementing Entity will be able to perform its obligations under the Project Agreement.

Article V
Effectiveness; Termination

- 5.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that:
- (a) The Recipient shall have appointed a Livestock/Nitrates Management Technical Specialist to the PIU with qualifications and under terms of reference satisfactory to the Bank.
 - (b) The execution and delivery of this Agreement on behalf of the Recipient and the Project Agreement on behalf of the Project Implementing Entity have been duly authorized or ratified by all necessary governmental and corporate action.
 - (c) The Recipient shall have completed, in form and substance satisfactory to the Bank, the preparation of the Project accounting software to include the GEF funding and generate automatically interim financial reports.
- 5.02. As part of the evidence to be furnished pursuant to Section 5.01, there shall be furnished to the Bank an opinion or opinions satisfactory to the Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory to the Bank of a competent official of the Recipient, showing the following matters:
- (a) on behalf of the Recipient, that this Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms; and
 - (b) on behalf of the Project Implementing Entity, that the Project Agreement has been duly authorized or ratified by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.
- 5.03. Except as the Recipient and the Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.
- 5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (90) days after the date of this Agreement, unless the Bank, after consideration of the reasons for the delay, establishes a later

date for the purpose of this Section. The Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient's Representative; Addresses

6.01. The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance of Croatia.

6.02. The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Katanciceva 5
10000 Zagreb
Republic of Croatia

Facsimile:

(385-1) 4922-598

6.03. The 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

Cable:

Telex:

Facsimile:

INTBAFRAD
INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(1-202) 477-6391

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

REPUBLIC OF CROATIA

By: /s/ Ivan Suker

Authorized Representative

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

By: /s/ Andras Horvai

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to significantly increase the use of environmentally friendly agricultural practices by farmers in the Recipient's Danube River basin in order to reduce nutrient discharge from agricultural sources to surface and ground water bodies, by: (i) promoting mitigating measures for nutrient reduction from agricultural sources to surface and ground water bodies (manure management); (ii) implementing a national Agri-environment policy (Code of Good Agricultural Practices) and the national water protection policy, particularly concerning nitrates; (iii) carrying out of a public awareness campaign that would disseminate the benefits of Project activities with the aim of replication at the national and regional levels; and (iv) efficient Project management.

The Project consists of the following parts:

Part 1: Mitigating Nutrient Loads to Water Bodies from Point-Source Pollution

Carrying out of a program to promote sustainable manure management practices with the objective of reducing nutrient loads to the surface and ground water bodies of the Recipient, and encompassing the following:

A. Nitrates Mitigation Investment Fund

Establishment of a Nitrates Mitigation Investment Fund within the MAFRD to finance Sub-Grants in the counties of Osije[ko-Baranjska, Vukovarsko-Srijemska, and Vara[inska, and provision of two (2) technical staff to support the management of the Fund.

B. Water and Soil Monitoring and Impact Analysis

Development and implementation of a water and soil monitoring program aimed at assessing the reduction of nutrient loads to surface and ground waters from Sub-projects, including impact analysis, through: (i) the installation of up to twenty-seven (27) *piezometers* sets in selected representative sites to monitor the quality of water flowing out of livestock farms implementing Sub-projects; (ii) systematic sampling and testing of well water in rural areas, both as a goodwill measure for participating Farms as well as to demonstrate the risk to rural communities from inappropriate nitrates management; (iii) the preparation and adoption of a Quality Control and Quality Assurance Operational Manual to bring coherence and uniformity in the work of all measuring stations and monitoring programs; (iv) the provision of data logging equipment for *piezometer* monitoring and sampling; and (v) the installation of three (3) sets of three (3) *lysimeters* in Vara[inska county in the vicinity of selected livestock farm with a view to measure nitrite and other parameters leaching into the soil.

Part 2: Development and Promotion Agri-Environment Measures

Strengthening of CAEI's capacity to advice and train the farmers working in the counties of Osiječko-Baranjska, Vukovarsko-Srijemska, and Varaždinska on the most cost-effective on-farm technologies for complying with the Nitrates Directive, including the financing of the salaries of the three (3) nitrates management staff in CAEI, the carrying out of field demonstration trips, the provision of training, international technical assistance, equipment and installation costs of soft-ware, and encompassing the following:

A. Dissemination of Code of Good Agriculture Practice

Provision of assistance to the MAFRD: (i) to disseminate the CGAP, through the carrying out of mass media campaigns and the distribution of brochures, agricultural periodicals and journals; (ii) the adaptation of the CGAP to the dominant farming systems in the counties of Osiječko-Baranjska, Vukovarsko-Srijemska, and Varaždinska; and (iii) the development of an interpretation of its provisions that ensure farmers' buy-in, including the provision of information and training on, *inter alia*, nutrient remedial measures, EU principles of project financing, and measures to secure funding from non-Bank resources.

B. Applied Research Program

Implementation of a broad-based multi-locational four-year plot trial program to develop fertilizer response curves for the three (3) most economically important crop types in each of the three Project counties.

C. CGAP Demonstration Program

Implementation, and support to the CAEI in the implementation, of a broad-based program to promote the adoption and implementation of environmentally friendly agricultural practices to reduce non-point source nutrient pollution from agriculture through reducing nutrient discharge into water bodies, through the provision of: (i) technical assistance to Farms receiving Sub-Grants; (ii) nutrient management planning in the project counties to promote optimum use of organic and mineral fertilizers in order to reduce the loss of nitrogen and phosphorus to the water bodies; and (iii) demonstration of cover crop technology that reduces nutrient loss, protects soil from compaction and erosion, maintains soil organic matter, enhances biodiversity and provides additional fodder and/or green manure.

Part 3: Public Awareness and Replication Strategy

Carrying out of a Project county and nationwide public information campaign to disseminate the benefits of the proposed Project activities for their replication with IPARD support, with particular emphasis on the implementation of good agricultural

practices and the promotion of improved rural sanitation in the Project counties, and including:

A. Public Awareness

Organization of national and regional workshops, field trips, and study tours for sharing knowledge and skills on effective low-cost environmentally friendly technologies, carrying out of dissemination activities through the use of the media (television, radio, agricultural and environmental journals) for disseminating the benefits of proposed activities, organization of fora, all as required to familiarize the population with the Project and its benefits and thereby raise the interest of potential future clients.

B. Website

Creation of a website linked to those of the MAFRD, CAEI and MEPPPC and dedicated to the management of nitrate pollution from agricultural sources.

C. Knowledge Sharing

Participation and attendance by Project staff of conferences and workshops of the GEF's International Waters Learning Exchange and Resource Network, meetings of the Danube and Black Sea Commission, and related nitrates management international experiential training.

Part 4: Project Management

Support to the PIU to manage the Project and to mainstream Project implementation functions within the MAFRD by gradually transferring component management to responsible MAFRD departments and institutions, including the employment of a livestock/nitrates management technical specialist and the provision of goods.

SCHEDULE 2

Project Execution

Section I. Institutional, Implementation and Other Arrangements

A. Institutional Arrangements

1. The MAFRD and its PIU

The Recipient, through the MAFRD, shall maintain, throughout Project implementation, the PIU headed by a Project Manager and with staff, resources and under terms of reference satisfactory to the Bank. The PIU shall be responsible for the implementation of Parts 1 and 4 of the Project and the overall Project coordination and monitoring for Parts 2 and 3 of the Project in close cooperation with CAEI. The PIU shall disburse Sub-Grants from the Nitrates Mitigation Investment Fund which shall have been previously authorized by the Payment Directorate.

2. The MAFRD Payment Directorate

The Payment Directorate shall be responsible for approving Subprojects and Sub-Grants under the Nitrates Mitigation Investment Fund under Part 1.A of the Project, including authorizing the disbursement of Sub-Grants pursuant to the provisions of the Beneficiary and Public Procurement Guide. For such purposes, the Recipient shall appoint, not later than ninety (90) days after the Effective Date, two (2) additional technical staff with responsibility for overseeing management of the Fund, and who will be integrated into the Payment Directorate to provide long term capacity.

3. Project Steering Committee

The Recipient, through the MAFRD, shall maintain throughout Project implementation a Project Steering Committee (PSC) composed of representatives from the MAFRD, the Ministry of Finance, the MEPPPC, and the Project Implementing Entity, and which shall be responsible for providing overall guidance and advice on Project issues. To that end, this Committee shall meet at least three (3) times a year.

4. Croatian Waters and the Water Policy and International Projects Directorate

The Recipient, through the WPIPD, shall work closely with CW to establish systems for monitoring surface and groundwater pollution, including the establishment under Part 1.B of the Project of a network of piezometers to form part of the national water quality monitoring system.

B. Implementation Arrangements: Procedures for, and Terms and Conditions of, Sub-Grants under the Nitrates Mitigation Investment Fund

1. The Recipient, through the PIU and upon previous authorization of the Payment Directorate, shall make Sub-Grants available to Farms to finance up to seventy-five percent (75%) of the cost of each Subproject, including the cost of taxes.

2. Except as the Recipient and the Bank may otherwise agree, each Sub-Grant shall be made only to a Farm which shall have established to the satisfaction of the Payment Directorate and on the basis of guidelines satisfactory to the Bank, that the Farm: (i) is registered in the Croatian Farm Registry; (ii) has a sound financial structure; (iii) has organization, management, staff and other resources required for the efficient carrying out of its operations and the carrying out of the Subproject; (iv) in the counties of Osiječko-Baranjska and Vukovarsko-Srijemska, the Farm is a medium-scale livestock farm having about 10-100 cows, 15-150 fattening beef cattle, and 40-400 sows or 100-1000 grower/fattening pigs, and in the Varaždinska county, the Farm fulfils such criteria or is a cattle farm of about 2,500-12,500 layers or 10,000-100,000 broilers per annum.

3. Each Sub-Grant shall be made available only for a Subproject which, on the basis of appraisal procedures carried out in accordance with the Beneficiary and Public Procurement Guide, including, if necessary, the preparation of an environmental impact assessment, is: (i) determined to be technically feasible and commercially, economically and financially viable; and (ii) designed in accordance with appropriate safety, health, water and environmental guidelines satisfactory to the Bank.

4. The Sub-Grant shall: (i) be denominated in the currency of the Recipient; (ii) be made on terms and conditions agreed upon on a case-by-case basis by the Payment Directorate and the Farm in accordance with the provisions of the Beneficiary and Public Procurement Guide; and (iii) be associated with additional contributions by the Farm as required by the Payment Directorate.

5. When presenting a Sub-Grant to the Payment Directorate for approval, the Farm shall furnish an application, in the form stipulated in the Beneficiary and Public Procurement Guide, together with: (i) a summary description of the Farm, including its scope of activities and ownership structure; (ii) an appraisal of the Subproject, including a description of the expenditures proposed to be financed out of the proceeds of the Sub-Grant; and (iii) such other information as the Payment Directorate shall reasonably request.

6. Sub-Grants shall be made on terms whereby the Recipient, through the MAFRD, shall obtain, by written contract with the Farm or by other appropriate legal means, rights adequate to protect the interests of the Recipient and the Bank, including the right to:

- (a) require the Farm to carry out and operate the Subproject with due diligence and efficiency and in accordance with sound technical,

financial, environmental and managerial standards and the provisions of the Anti-Corruption Guidelines and to maintain adequate records;

- (b) require that: (i) the works, goods and services to be financed out of the proceeds of the Sub-Grant shall be procured in accordance with the provisions of Section III of this Schedule; and (ii) such works, goods and services shall be used exclusively in the carrying out of the Subproject;
- (c) inspect, by itself or jointly with representatives of the Bank if the Bank shall so request, such goods and the sites, works, plants and construction included in the Subproject, the operation thereof, and any relevant records and documents;
- (d) obtain all such information as the Recipient or the Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Farm and to the benefits to be derived from the Subproject; and
- (e) suspend or terminate the right of the Farm to the use of the proceeds of the Sub-Grant upon failure by such Farm to perform its obligations under its contract with the Payment Directorate.

C. Other Arrangements

1. Environmental Management Plan

The Recipient, through the MAFRD, shall take all action required to follow and apply at all times the provisions of the Environmental Management Plan in a timely manner, ensuring that: (i) mitigation and monitoring measures acceptable to the Bank are designed and implemented with due diligence and employing appropriate environmental expertise; and (ii) adequate information on the implementation of the measures contained in the EMP is suitably included in the Progress Reports referred to below in Section II.A.1.

2. Operational Manual

- (a) The Recipient, through the MAFRD, shall take all action required to carry out Parts 1 and 4 of the Project in accordance with the requirements set forth or referred to in the Operational Manual.
- (b) Unless the Bank may otherwise agree, the Recipient may not assign, amend, abrogate or waive the Operational Manual or any of the provisions thereof.

3. Transfer of Grant Proceeds for Parts 2 and 3 of the Project

- (a) For the purposes of carrying out Parts 2 and 3 of the Project, the Recipient, through the MAFRD, shall reimburse CAEI through the state budget and out of the proceeds of the Grant, the incremental costs detailed in the agreed AWPB and incurred for the carrying out Parts 2 and 3 of the Project.
- (b) For the purposes of the preceding subparagraph (a), the term “incremental costs” means expenditures to finance: (i) goods, services (other than consultants’ services), consultants’ services and training under Part 2.C (ii) of the Project; and (iii) the Recurrent Costs listed in the table in paragraph 2 of Section IV.A of this Schedule.

4. Annual Work Program and Budget under Parts 2 and 3 of the Project

The Recipient, through the PIU, shall:

- (a) prepare, on the basis of proposals submitted by the Project Implementing Entity, a draft AWPB for each fiscal year, including, *inter alia*: (i) a detailed description of planned Project activities for the following fiscal year; (ii) the sources and uses of funds therefor; and (iii) responsibility for execution of the Project activities, budgets, start and completion date, outputs, and monitoring indicators to track progress of each activity;
- (b) not later than November 30, submit to the Bank for its comments and approval, the draft AWPB and, promptly thereafter, finalize the AWPB taking into account the Bank’s views and recommendations thereon; and
- (c) adopt and sign the final version of the AWPB in the form approved by the Bank not later than December 31 of each fiscal year.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient shall monitor and evaluate the progress of Parts 1 and 4 of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the Monitoring and Evaluation Indicators for Parts 1 and 4 of the Project. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than forty-five (45) days after the end of the period covered by such Report.

2. The Recipient 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 Bank not later than five (5) months after the Closing Date.

B. Financial Management; Financial Reports; Audits

1. The Recipient, through the MAFRD, shall ensure that a financial management system is maintained for the Project in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. The Recipient, through the MAFRD, shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the Bank. The first unaudited financial report shall cover the calendar semester in which this Agreement becomes effective.

3. The Recipient, through the MAFRD, shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year or other period that may be agreed to by the Bank. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period or other period that may be agreed to by the Bank.

C. Mid-Term Review

The Recipient, through the MAFRD, shall:

- (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators for Parts 1 and 4 of the Project, the carrying out of Parts 1 and 4 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, on or about October 31, 2009, a report integrating the results of the monitoring and evaluation activities: (i) performed pursuant to the preceding paragraph (a) on the progress achieved in the carrying out of Parts 1 and 4 of the Project during the period preceding the date of said report; and (ii) on the progress achieved in the carrying out of Parts 2 and 3 of the Project performed by the Project Implementing Entity pursuant to the provisions of Section II.C (a) of the Schedule to the Project Agreement, 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, on or about December 31, 2009 or such later date as the Bank shall request, the report referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of Parts 1 and 4 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.

Section III. Procurement

A. General

1. **Works, Goods and Services (Other than Consultants' Services).** All works, goods and services (other than consultants' services) required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines and the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Works, Goods and Services (Other than Consultants' Services)

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and services (other than consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Works, Goods and Services (Other than Consultants' Services).** The following methods, other than International Competitive Bidding, may be used for procurement of works, goods and services (other than consultants' services) for those contracts and under the circumstances specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional provisions set forth in the Annex to this Schedule); (b) Shopping; and (c) Procurement in Loans to Financial Intermediaries in accordance with the Beneficiary and Public Procurement Guide.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those assignments which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection; (f) Commercial Practices; (g) Selection of Individual Consultants; and (h) Sole Source Procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

1. The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the 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 table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in USD)	Percentage of Expenditures to be Financed
(1) Sub-Grants	2,660,000	75%
(2) Goods, Services (other than Consultants' Services), consultants' services and training under Parts 1, 2.A, 2.B, 2.C (i) and (ii), 3 and 4 of the Project	2,060,000	100%
(3) Goods, Services (other than Consultants' Services), Consultants' Services and Training under Part 2.C (iii) of the Project	190,000	70%
(4) Recurrent Costs	90,000	100%
TOTAL AMOUNT	<u>5,000,000</u>	

3. For the purposes of this Section, the term "Recurrent Costs" means expenditures incurred to finance the cost of operation and maintenance of equipment and travel allowances of the staff of the Payment Directorate, the PIU and the CAEI under all Parts of the Project, the mileage allowances and operation and maintenance of vehicles under Parts 2 and 3 of the Project, and bank charges related to the Grant.

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is July 31, 2012.

ANNEX
to
SCHEDULE 2

For the purposes of following National Competitive Bidding procedures for goods and services (other than consultants' services) to be financed under the Grant, the following modifications and additions shall apply:

(i) Procedures

The public bidding method shall apply to all contracts. Invitations to bid shall be advertised in the Recipient's Official Gazette (*Narodne Novine*) and in at least one widely circulated national daily newspaper or at the MAFRD's website, allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) Assessment of Bidders' Qualifications

When pre-qualification shall be required for large or complex works contracts, invitations to pre-qualify for bidding shall be advertised in the Recipient's Official Gazette (*Narodne Novine*) and at least one widely circulated national daily newspaper or at the MAFRD's website 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, which shall be determined by a 'pass/fail' method, not through the use of a merit point system. Where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents.

(iii) Participation of Government-owned Enterprises

Government-owned enterprises located and operating on the Recipient's territory shall be eligible to participate in bidding only if they can establish, to the Bank's satisfaction, that they are legally and financially autonomous, operate under commercial laws and are not a dependent agency of the Recipient's Government. Said enterprises shall be subject to the same bid and performance security requirements as other bidders.

(iv) Bidding Documents

The Project Implementing Entity acting as procuring entity shall use the appropriate standard bidding documents for the procurement of goods or services, as defined in the paragraph 1.1 of the Guidelines, which shall contain draft contract and conditions of contract acceptable to the Bank.

(v) Bid Submission, Opening and Evaluation

- (1) Bids shall be submitted in a single envelope containing the bidder's qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.
- (2) Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.
- (3) The evaluation of bids shall be done in strict adherence to the monetarily quantifiable criteria specified in the bidding documents and a merit point system shall not be used.
- (4) 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.
- (5) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.
- (6) No preference shall apply under National Competitive Bidding.

(vi) Price Adjustment

Civil works contracts of long duration (e.g., more than eighteen (18) months) shall contain an appropriate price adjustment clause.

(vi) Rejection of All Bids

- (1) All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.
- (2) When the number of bids received is less than two, re-bidding shall not be carried out without the Bank's prior concurrence.

(vii) Securities

Bid securities should not exceed two percent (2%) of the estimated cost of the contract; and performance securities - not more than 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 shall be acceptable to the Bank.

APPENDIX
Definitions

1. “AACP” means the Agricultural Acquis Cohesion Project, a project financed by the Bank under the Loan Agreement (Loan No. 7360-HR) between the Recipient and the Bank dated May 8, 2006.
2. “AWPB” means an Annual Work Program and Budget for the carrying out of Parts 2 and 3 of the Project during a particular fiscal year (as hereinafter defined) to be concluded each year between the Recipient and the Project Implementing Entity.
3. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
4. “Beneficiary and Public Procurement Guide” means the manual prepared and adopted by the Payment Directorate (as hereinafter defined) incorporating the key elements of EU best practices for the management of the Nitrates Mitigation Investment Fund under Part 1.A of the Project, and setting forth the procedures for the application, selection and granting of Sub-Grants (as hereinafter defined) thereunder.
5. “CAEI” means the Recipient’s Croatian Agricultural Extension Institute (*Hrvatski zavod za poljoprivrednu savjetodavnu službu*), a specialized institution for the provision of agricultural advisory services and the Project Implementing Entity (as hereinafter defined).
6. “Category” means a category of items set forth in the table in the table in Section IV of Schedule 2 to this Agreement.
7. “Code of Good Agriculture Practices” means the Code currently under preparation by the MAFRD on good agricultural practices and measures to reduce nutrient loads to water bodies from agricultural sources as mandated by the Nitrates Directive (as hereinafter defined).
8. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
9. “CW” means the Croatian Waters, a public institution in the Recipient’s territory responsible for water management.

10. “Environmental Management Plan” and “EMP” mean the Recipient’s environmental management plan acceptable to the Bank dated July 30, 2007, describing the environmental, mitigation, monitoring and institutional measures to be undertaken under the Project.
11. “EU” means the European Union.
12. “Fiscal Year” means the twelve (12) month period corresponding to any of the Recipient’s or Project Implementing Entity’s (as hereinafter defined) fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.
13. “Farm” means a physical or legal person established and operating in the territory of the Recipient which is eligible to receive a Sub-Grant (as hereinafter defined) pursuant to the provisions of paragraph 2 of Section I.B. (Implementation Arrangements) of Schedule 2 to this Agreement.
14. “GEF’s International Waters Learning Exchange and Resource Network” means the GEF operational program focusing on seriously threatened waterbodies and the most imminent transboundary threats to their ecosystems and aimed at undertaking a series of projects that involve helping groups of countries to work collaboratively in achieving changes in sectoral policies and activities so that transboundary environmental concerns degrading specific international waterbodies can be resolved.
15. “IPARD” means the Instrument for Pre-accession Assistance for Rural Development, the EU’s financial instrument to help prepare candidate countries for the pre-accession process during the 2007-2013 period.
16. “MAFRD” means the Recipient’s Ministry of Agriculture, Fishery and Rural Development, or any successor thereto.
17. “MEPPPC” means the Recipient’s for Ministry of Environmental Protection, Physical Planning and Construction, or any successor thereto.
18. “Monitoring and Evaluation Indicators for Parts 1 and 4 of the Project” means the agreed monitoring and evaluation indicators set forth in a letter of even date herewith to be utilized by the Recipient under Parts 1 and 4 of the Project to measure the progress in the implementation of Parts 1 and 4 of the Project and the degree to which the objectives thereof are being achieved.
19. “Monitoring and Evaluation Indicators for Parts 2 and 3 of the Project” means the agreed monitoring and evaluation indicators set forth in a letter of even date herewith to be utilized by the Project Implementing Entity under Parts 2 and 3 of

the Project to measure the progress in the implementation of Parts 2 and 3 of the Project and the degree to which the objectives thereof are being achieved.

20. "Nitrates Directive" means the EU Nitrates Directive No. 91/676/EEC dated December 12, 1991, concerning the protection of waters against pollution caused by nitrates from agricultural sources.
21. "Operational Manual" means the Manual adopted by the MAFRD under the AACP as supplemented and adjusted to account for the GEF's funding and sponsoring of this Project, and setting forth the procedures to be followed and applied for the administrative, accounting, procurement, financial management, and monitoring and evaluation aspects of the Project.
22. "Payment Directorate" means the Unit established within the MAFRD to disburse government and EU market and structural funds to farmers.
23. "PIU" means the Project Implementation Unit established within the Department of Policy, EU and International Relations of the MAFRD for the purposes of the AACP.
24. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October 2006.
25. "Procurement Plan" means the Recipient's procurement plan for the Project, dated October 25, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
26. "Project Implementing Entity" means CAEI.
27. "Project Implementing Entity's Legislation" means, jointly and/or individually, the Regulation on the CAEI (Official Gazette No. 6/97), as amended, and its Bylaws dated April 22, 1997.
28. "Standard Conditions" means the Standard Conditions for Grants Made by the World Bank Out of Various Funds, dated July 20, 2006.
29. "Subproject" means a specific development project for the rehabilitation of existing manure platforms, the construction of impervious manure storage platforms and manure pits and manure pumping to be carried out by a Farm under Part 1.A of the Project utilizing the proceeds of a Sub-Grant.
30. "Sub-Grant" means a grant made or proposed to be made by the PIU, upon previous authorization of the Payment Directorate, out of the proceeds of the

Grant to a Farm for purposes of carrying out a Subproject under Part 1.A of the Project.

31. "WPIPD" means the Water Policy and International Projects Directorate within the MAFRD.