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GEF TRUST FUND GRANT NUMBER TF055265

# **Global Environment Facility Trust Fund Grant Agreement**

(Water Quality Protection Project)

between

**BOSNIA AND HERZEGOVINA**

and

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**acting as an Implementing Agency of the Global Environment Facility**

**Dated July 12, 2005**

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## **GEF TRUST FUND GRANT NUMBER TF055265**

### **GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT**

AGREEMENT, dated July 12, 2005, between BOSNIA and HERZEGOVINA (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; 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), (9), (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), (d), (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, 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and the last use of such term in Section 5.01 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) 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
- (vii) 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) “Environmental Management Plans” means, collectively, the four environmental management plans, satisfactory to the Bank, prepared and adopted by the Recipient and the Federation on March 17, 2005, setting forth the environmental and social mitigation and monitoring plans, implementation schedules, and institutional arrangements to be taken during the implementation and operation of the four Sub-projects to be undertaken by the Participating Utilities in Mostar, Zivinice, Trnovo, and Odzak during Project implementation in order to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures, and referred to in paragraph 2 of Schedule 3 to this Agreement and sub-paragraph 4 (c) of Schedule 1 to the Project Agreement (as hereafter defined);

(b) “Environmental Framework Policy” means the environmental framework policy, entitled “Environmental Guidelines”, satisfactory to the Bank, prepared and adopted by the Recipient and the Federation on March 17, 2005, setting forth the environmental and social mitigation, monitoring and institutional measures to be taken during the implementation and operation of the Project to avoid or reduce adverse environmental impacts from chance finds, as well as Sub-projects (as hereafter defined) that may be identified, appraised, and financed after the date of signature of this Agreement by agreement from time to time between the Recipient and the Bank, and the actions needed to implement these measures, and referred to in paragraph 2 of Schedule 3 to this Agreement and sub-paragraph 4 (c) of Schedule 1 to the Project Agreement;

(c) “Federation” means the Federation of Bosnia and Herzegovina, a political subdivision of the Recipient, and includes any successor or successors thereto;

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

(e) “Investments” means the rehabilitation and improvement of infrastructure systems for water supply and sanitation leading to environmental benefit;

(f) “MOA” means the Ministry of Agriculture, Water Management and Forestry of the Federation, and includes any successor thereto;

(g) “Operational Manual” means the manual, including the Project Implementation Plan, the Financial Management Manual, and the Environmental Framework Policy, referred to in paragraph 1 of Schedule 1 to the Project Agreement, satisfactory to the Bank, to be adopted by the Recipient and the Federation, respectively, and setting out the operational and administrative procedures for the implementation of the Project, including the selection, approval, processing, financing, implementation, monitoring, evaluation and supervision of Sub-projects, as the same may be amended from time to time by agreement between the Bank and the Recipient;

(h) “PCWM” means the Public Company for Water Management of Sava Catchment – Sarajevo and Adriatic Sea catchment – Mostar”, an enterprise wholly-owned by the Federation, responsible for water management, and established under the MOA pursuant to the Water Law of the Federation, and includes any successor thereto;

(i) “PITs” means the Project Implementation Teams established and to be established within the Participating Utilities, comprised of a qualified Procurement Officer and a Financial Officer, and such other qualified personnel as may be necessary for Project purposes, employed under terms of reference satisfactory to the Bank if the salary of any such person will be financed under the Project, and which Teams will be responsible for the day-to-day implementation and administration of the Sub-projects, and “PIT” means any of them, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time;

(j) “PMT” means the Project Management Team established within the MOA, staffed by qualified personnel of the MOA and PCWM, and comprised of a qualified Procurement Manager, Procurement Officer, Financial Manager and Assistant, and such other qualified personnel as may be necessary for Project purposes, all of whose services will be retained for the entire implementation of the Project, and which Team will be responsible for Project financial management and procurement, subject to such modifications thereof as the Recipient and the Bank may agree upon from time to time;

(k) “Participating Utility” means a Utility (as hereafter defined) in Mostar, Zivinice, Trnovo-Sarajevo, and Odzak which is to participate in the carrying out of the Project pursuant to a Sub-Grant Agreement (as hereafter defined) between the Federation and such Utility under Section 2.01 (b) of the Project Agreement, including any additional Utilities that may participate in the Project by agreement from time to time among the Recipient, the Bank and the Federation;

(l) “Procurement Plan” means the Recipient’s procurement plan, dated March 17, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation.

(m) “Project Agreement” means the agreement between the Bank and the Federation of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(n) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(o) “Sub-Grant” means a grant provided or to be provided by the Federation to a Participating Utility under a Sub-Grant Agreement (as hereafter defined) from the proceeds of the Grant provided to the Federation under the Subsidiary Grant Agreement;

(p) “Sub-Grant Agreement” means the agreement to be entered into between the Federation and a Participating Utility pursuant to paragraph (a) of Section 3.04 of this Agreement and referred to in paragraph (b) of Section 2.01 of the Project Agreement, as the same agreement may be amended from time to time with the prior approval of the Bank, and such term includes all schedules and agreements supplemental to each Sub-Grant Agreement; and the term “Sub-Grant Agreements” means all said agreements collectively;

(q) “Sub-project” means a high-priority, low-cost water supply or sanitation capital investment project, and related investments, to be carried out by a Participating Utility under Part B of the Project;

(r) “Subsidiary Grant” means the grant provided by the Recipient to the Federation under the Subsidiary Agreement (as hereafter defined) from the proceeds of the Grant;

(s) “Subsidiary Grant Agreement” means the agreement to be entered into between the Recipient and the Federation pursuant to paragraph (c) of Section 3.01 of this Agreement, and pursuant to which the Recipient makes available to the Federation the proceeds of the Grant for the carrying out of the Project, as the same agreement may be amended from time to time with the prior approval of the Bank, and such term includes all schedules and agreements supplemental to the Sub-Grant Agreement;

(t) “Utility” means a local body or enterprise operating in the Federation that is responsible for the provision of water supply and sanitation within the relevant geographical area, and “Utilities” means more than one Utility; and

(u) “Wastewater Improvement Plan” means the plan to provide the basis for all further actions for a National Wastewater Strategy for reducing river pollution in the Federation, and consisting of: (i) a review of existing laws and regulations dealing with the discharge of effluent for the various river regimes; (ii) a description of existing institutional arrangements; (iii) recommendations for the measures necessary to reduce pollution and the development of a long-term river quality monitoring program; (iv) a financing plan; (v) an analysis of the economic benefits of clean rivers; (vi) recommendations for institutional improvements, including coordination with riparian countries; and such additional matters as may be agreed from time to time among the Recipient, the Bank and the Federation.

## **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 eight million nine hundred thousand Dollars (\$8,900,000).

Section 2.02. (a) 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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be February 28, 2011 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. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the PMT with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and environmental practices, and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Bank shall otherwise agree, the Recipient shall carry out the Project in accordance with the implementation program set forth in Schedule 3 to this Agreement and the Operational Manual, and shall cause the Federation, as well the PMT and the PITs, to perform their respective obligations under the Project in accordance with the provisions of the implementation program set forth in Schedule 3 to this Agreement, the Operational Manual, and the Project Agreement, respectively.

(c) The Recipient shall make available to the Federation the entire proceeds of the Grant, namely, eight million nine hundred thousand Dollars (\$8,900,000) and, for such purposes, the Recipient shall enter into a subsidiary grant agreement with the Federation under terms and conditions which shall have been approved by the Bank.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of the goods, works and 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 this Section 3.02 and Schedule 2 to the Project 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 12 months after the date of the preceding Procurement Plan, for the Bank's approval. Promptly following each approval by the Bank of the updated Procurement Plan, the Recipient shall provide a copy of such update to the Federation.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan for the future operation of the Project; and

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

Section 3.04. The Recipient and the Bank hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by the Federation pursuant to Section 2.06 (a) of the Project Agreement.

Section 3.05. The Recipient shall take, or cause to be taken, all measures necessary to ensure that:



(a) for the purposes of carrying out the Project, the Federation shall on-grant a portion of the proceeds of the GEF Trust Fund Grant received by it from the Recipient under the Subsidiary Grant Agreement to each Participating Utility under a Sub-Grant Agreement with such Participating Utility, under terms and conditions that will have been approved by the Bank. Notwithstanding the foregoing provisions of this paragraph (a), the Federation shall not enter into a Sub-Grant Agreement with the Zivinice Participating Utility unless and until local or external funding, in addition to the GEF Trust Fund Grant hereunder, has been secured and which the Recipient and the Bank shall have agreed would be sufficient to carry out the Zivinice Sub-Project;

(b) the Sub-projects are implemented by the PITs in a timely manner in full compliance with the provisions of the Environmental Management Plans and the Environmental Framework Policy, as the case may be; and

(c) the PMT, the PCWM and the PITs are each maintained and adequately staffed throughout the implementation of the Project, satisfactory to the Bank.

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Recipient, through the PMT, shall maintain a financial management system, including records and accounts, and prepare financial statements, 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, through the PMT, 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, starting with the fiscal year ending December 31, 2005, 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 six 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 statements of expenditure, the Recipient, through the PMT, shall:

- (i) retain, until at least one 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 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 Recipient's progress reporting obligations set out in paragraph 4 of Schedule 3 to this Agreement, the Recipient, through the PMT, shall prepare and furnish to the Bank a 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 explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than 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 FMR shall be furnished to the Bank not later than 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) the Federation shall have failed to perform any of its obligations under the Project Agreement or the Subsidiary Grant Agreement;

(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation shall be able to perform its obligations under the Project Agreement, the Subsidiary Grant Agreement, or the Operational Manual, or that the PMT, the PCWM, or any of the PITs or Participating Utilities shall be able to perform their respective obligations under this Agreement, the Operational Manual, or any of the Sub-Grant Agreements, as the case may be;

(c) the Recipient, the Federation, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PMT, the PCWM, or any of the PITs or Participating Utilities, or for the suspension of any of their respective activities; and

(d) the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Bank, the carrying out of the Project or the realization of its objectives.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraphs (a), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Recipient.

## **ARTICLE VI**

### **Effectiveness, Termination**

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) the Project Agreement has been signed on behalf of the Bank and the Federation, on terms and conditions satisfactory to the Bank;

(b) the Subsidiary Grant Agreement has been signed on behalf of the Recipient and the Federation, on terms and conditions satisfactory to the Bank;

(c) a Sub-Grant Agreement has been signed on behalf of the Federation and a Participating Utility, on terms and conditions satisfactory to the Bank; and

(d) the Operational Manual, satisfactory to the Bank, has been adopted by the Recipient and the Federation.

Section 6.02. The following are specified as additional matters, with the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the Project Agreement has been duly authorized or ratified by the Federation, and is legally binding on the Federation in accordance with its terms;

(b) that the Subsidiary Grant Agreement referred to in paragraph (b) of Section 6.01 above has been duly authorized or ratified by the Recipient and the Federation, and is legally binding upon the Recipient and the Federation in accordance with its terms; and

(c) that the Sub-Grant Agreement referred to in paragraph (c) of Section 6.01 above has been duly authorized or ratified by the Federation and the relevant Participating Utility, and is legally binding upon the Federation and the relevant Participating Utility in accordance with its terms.

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 of Finance and Treasury of the Recipient is designated as the 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 of Finance and Treasury  
Trg BiH 1  
71000 Sarajevo  
Bosnia and Herzegovina

Facsimile:

(387-33) 471-822

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 the City of Sarajevo, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Ljerka Maric

Authorized Representative

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

By /s/ Dirk Reinermann

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the GEF Trust Fund Grant**

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) Works	5,730,000	80%
(2) Goods	1,540,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3) Consultants' services, training and audits	1,100,000	100% for foreign consulting firms and foreign individual consultants, and 80% for local consulting firms and local individual consultants, and 100% for training
(4) Incremental operating costs	200,000	100% until December 31, 2006, and 90% thereafter
(5) Unallocated	<u>330,000</u>	
TOTAL	<u>8,900,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; provided, however, that if the currency of the Recipient is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “Incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Bank on the basis of budgets acceptable to the Bank, incurred by the PMT and the PITs on account of Project implementation, management and monitoring, including the cost of salaries of PITs’ staff, office equipment and supplies, office equipment maintenance and repair, vehicle operation (including fuel) and repair, local and international travel, communication, translation and interpretation, bank charges, and other miscellaneous costs, as may be agreed with the Bank; and

(d) the term “Training” means training activities (other than consultants’ services) to be carried out under the Project, including the reasonable and necessary travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence, local and international per diem allowances, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Bank.

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) expenditures incurred in respect of a Sub-project by a Participating Utility until the relevant Participating Utility has concluded a Sub-Grant Agreement with the Federation, satisfactory to the Bank;

(c) expenditures incurred in respect of a Sub-project by the Zivinice Participating Utility unless and until local or external funding, in addition to the GEF Trust Fund Grant hereunder, has been secured and which the Recipient and the Bank shall have agreed would be sufficient to carry out the Zivinice Sub-Project; and



(d) Categories (1) and (2) allocated to Part B of the Project, with the exception of the Sub-projects to be undertaken by the Participating Utilities in Mostar, Zivinice, Trnovo, and Odzak, unless an environmental assessment and an environmental mitigation plan, each satisfactory to the Bank, has been duly completed, prepared and disclosed for the relevant Sub-project, all in conformity with the requirements of the Environmental Framework Policy.

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) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms costing less than \$100,000 equivalent per contract; and (d) training workshops and study tours, audit fees, and incremental operating costs; all under such terms and conditions as the Bank shall specify by notice to the Recipient.

5. 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.

## **SCHEDULE 2**

### **Description of the Project**

The overall objective of the Project is to further strengthen the capacity of local utilities and reduce pollution from municipal sources into the Neretva and Bosnia Rivers. The sub-objectives are to: (i) develop the Wastewater Improvement Plan; (ii) further strengthen the Bosnia and Herzegovina-Croatia Commission for Water Management, with coordination from Serbia and Montenegro, to implement the Wastewater Improvement Plan; (iii) develop and implement high-priority, low-cost Investments; and (iv) disseminate information in Bosnia and Herzegovina and the region for replication of Project activities at other priority sites in the Balkans. The global objective of the Project is to reduce municipal pollution and nutrients from municipal and non point pollution sources.

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 objectives.

#### Part A: Action Plan for Reduction of River Pollution in Bosnia and Herzegovina

Support for the preparation of an action plan that would provide the basis for all further actions for reducing river pollution in Bosnia and Herzegovina, including data collection and review that would underpin the Wastewater Improvement Plan.

#### Part B: High Priority Investments

Financing of Sub-projects, through the provision of Sub-Grants to Participating Utilities, to facilitate high priority, low-cost Investments, and related investments to Participating Utilities.

#### Part C: Natural Wastewater Treatment Study

Support for the preparation of a feasibility study in accordance with the rules of natural wastewater treatment on low-cost natural treatment of wastewater, targeting the lower Neretva River, and in the area of the lower part of the Bosna River, taking into account factors such as climatic conditions, hydrogeological conditions (sensitive karst area) and land management conditions with a view to demonstrating appropriate investments for low-cost, low-energy treatment for small towns and settlements in municipalities.

#### Part D: Project Management

Financing of Project implementation, management and monitoring, including the provision of technical assistance to finance replication of Project findings in the Balkans

region, as well as monitoring, updating and implementation of the Wastewater Improvement Plan, coordination with water utilities and international counterparts from the Republic of Croatia and the Republic of Montenegro.

Part E: Replication, Information Sharing and Implementation

Financing of: (i) financial management training for institutional strengthening and capacity building for Participating Utilities, as well as the preparation of annual business plans for each Participating Utility; (ii) the replication of Project findings in the Balkans region; and (iii) a public awareness campaign to increase the understanding of the proposed investments and policy actions.

\* \* \*

The Project is expected to be completed by August 30, 2010.

### **SCHEDULE 3**

#### **Implementation Program**

1. The Recipient, through the PMT, shall carry out the Project:
  - (a) under the overall responsibility of the MOA. The PMT shall be responsible for overall implementation of the Project, including responsibility for procurement, financial management, monitoring, reporting, and evaluation. The PITs shall be responsible for the day-to-day implementation of individual Sub-projects which each of them shall carry out, as well as the preparation of regular progress and financial reports concerning such Sub-projects, for delivery to the PMT. The MOA, the PMT, the PCWM, and the PITs shall each fulfill their respective responsibilities and obligations under the Project in accordance with the Operational Manual; and
  - (b) in accordance with the Environmental Management Plans and the Environmental Framework Policy and, unless the Association otherwise agrees, shall not amend, repeal or waive any of the Environmental Management Plans or the Environmental Framework Policy or any provision of any one thereof.
2. The Recipient, through the PMT, shall ensure that all measures necessary for the carrying out of the Environmental Management Plans and the Environmental Framework Policy are taken in a timely manner.
3. The Recipient shall adopt and thereafter maintain the Operational Manual, and shall also maintain the Subsidiary Grant Agreement, in form and content satisfactory to the Bank, and shall duly perform all its obligations under the Operational Manual and the Subsidiary Grant Agreement and shall not take or concur in any action which would have the effect of amending, assigning, abrogating or waiving the Operational Manual or the Subsidiary Grant Agreement without obtaining the prior approval of the Bank.
4. The Recipient, through the PMT, shall:
  - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed upon with the 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, on or about February 15, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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, by May 15, 2008, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section, 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.

## **SCHEDULE 4**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means the amount of \$800,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to the amount of \$400,000 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 \$3,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.
    - (ii) 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 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if the Recipient shall have failed to furnish to the 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the GEF Trust Fund Grant allocated to the eligible Categories, 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 allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the GEF Trust Fund Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.