

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF 055978-HU

MOB Project Agreement

(Nutrient Reduction Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

(Acting as an Implementing Agency of the Global Environment Facility)

and

MUNICIPALITY OF BUDAPEST

Dated May 15, 2006



GEF TRUST FUND GRANT NUMBER TF 055978-HU

MOB PROJECT AGREEMENT

AGREEMENT dated May 15, 2006, between the 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, and the MUNICIPALITY OF BUDAPEST (MOB).

WHEREAS (A) by the GEF Trust Fund Grant Agreement of even date herewith between the Republic of Hungary (the Recipient) and the Bank, the Bank has agreed to make a GEF Trust Fund Grant available to the Recipient in an amount equal to twelve million five hundred thousand Dollars (\$12,500,000) on the terms and conditions set forth in the GEF Trust Fund Grant Agreement, but only on condition that the MOB agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an Implementation Grant Agreement to be entered into between the Recipient, the MOB, the DDNP and the WD, a portion of the proceeds of the GEF Trust Fund Grant provided for under the GEF Trust Fund Grant Agreement will be made available to the MOB on the terms and conditions set forth in the said Implementation Grant Agreement; and

WHEREAS the MOB, in consideration of the Bank's entering into the GEF Trust Fund Grant Agreement with the Recipient, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the GEF Trust Fund Grant Agreement, the Recitals to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "Fiscal Year" means the twelve (12) month period corresponding to any of the MOB's fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(b) “MOB Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the MOB under Part A of the Project to measure the progress in the implementation of Part A of the Project and the degree to which the objectives thereof are being achieved; and

(c) “Project Implementation Unit of the MOB” or “PIU-MOB” means the Unit established by the MOB within its Mayor’s Office under the provisions of the MOB Loan Agreement and referred to in paragraph 1 of Section A of Schedule 2 to this Agreement.

ARTICLE II

Execution of Part A the Project

Section 2.01. (a) The MOB declares its commitment to the objectives of the Project as set forth in Schedule 2 to the GEF Trust Fund Grant Agreement and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate economic, engineering, technical and water management practices and with due regard to ecological and environmental factors as stipulated in the Bucharest Convention on the Protection of the Black Sea Against Pollution and the Ramsar Convention on Wetlands, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and the MOB shall otherwise agree, the MOB shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for Part A of the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 1 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) MOB shall update the Procurement Plan for Part A of the Project 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.

Section 2.03. (a) The MOB shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 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 MOB Project Agreement and Part A of the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the MOB shall:

- (i) 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 Bank and the MOB, a plan to ensure the future sustainability of Part A of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with the MOB on said plan.

Section 2.04. The MOB shall duly perform all its obligations under the Implementation Grant Agreement. Except as the Bank shall otherwise agree, the MOB shall not take or concur in any action which would have the effect of amending, abrogating or waiving the Implementation Grant Agreement or any provision thereof.

Section 2.05. The MOB shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of GEF Trust Fund Grant, or the performance by the MOB of its obligations under this Agreement and under the Implementation Grant Agreement.

ARTICLE III

Management and Operations of the MOB

Section 3.01. The MOB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, economic, environmental, and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. The MOB shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The MOB 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 and to register separately the operations, resources and expenditures related to Part A of the Project.

- (b) The MOB shall:
- (i) facilitate the auditing of the financial statements referred to in paragraph (a) above and Section 4.01 of the GEF Trust Fund Grant Agreement 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; and
 - (ii) 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 the reports referred to in Part A.5 of Schedule 1 to the GEF Trust Fund Grant Agreement (Report-based Disbursements) or on the basis of statements of expenditure related to Part A of the Project ,MOB 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) provide information so that such reports and statements of expenditure may be 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 MOB's reporting obligations set out in paragraph 1 of Section C of Schedule 2 to this Agreement, the MOB shall prepare and furnish to MOEW a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds under Part A of 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 the implementation of Part A of the Project, both cumulatively and for the period covered by said

report, and explains variances between the actual and planned implementation of Part A of the Project; and

- (iii) sets forth the status of procurement under Part A of the Project, as at the end of the period covered by said report.

(b) The first FMR for Part A of the Project shall be furnished to the MOEW with sufficient time to enable the MOEW to prepare and submit to the Bank the FMR for the Project not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date. The FMR for Part A of the Project 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 for Part A of the Project shall be furnished to the MOEW with sufficient time to enable the MOEW to prepare and submit to the Bank the FMR for the Project not later than forty-five (45) days after each subsequent calendar quarter, and shall cover the period not covered by the previous FMR for Part A of the Project until the end of such calendar quarter.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the GEF Trust Fund Grant Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of the MOB thereunder shall terminate on the date on which the GEF Trust Fund Grant Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify the MOB thereof.

Section 5.03. All this provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Bank:

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

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(1-202) 477-6391

For the Municipality of Budapest:

Municipality of Budapest
Mayor's Office - PIU
P.O. Box 1
H-1364 Budapest 4
Republic of Hungary

Cable address:	Facsimile
MUNICIPALITY OF BUDAPEST	(36-1) 327-1811

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the MOB, may be taken or executed by the Mayor of the MOB or such other person or persons as the Mayor shall designate in writing, and the Mayor shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

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

By: /s/ Daniela Gressani

Authorized Representative

MUNICIPALITY OF BUDAPEST

By: /s/ Gabor Demszky

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

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 Credits" 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.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$300,000 equivalent per contract and works estimated to cost less than \$2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions: draft NCB documents shall be provided to the Bank in English for its review and prior no-objection.

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

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 \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. 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.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$200,000 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.

3. 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

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.

SCHEDULE 2

Implementation Program

Section A: Institutional Arrangements

1. Project Implementation Unit of the MOB

(a) The MOB shall be responsible for the technical and financial management of Part A of the Project and the carrying out of the procurement, payment and reporting responsibilities.

(b) Specific implementation activities for Part A of the Project shall be vested in the PIU-MOB. To those ends, the MOB shall maintain the PIU-MOB throughout Project implementation with financial and human resources adequate to enable it to appropriately carry out its responsibilities under Part A of the Project.

(c) The MOB has contracted the supervision of the works under Part A of the Project to the BMSC. To this effect, the BMSC shall report to a joint review team formed by representatives of the MOB and of the BMSC.

(d) The PIU-MOB shall assist the PMU and the PIU-WD by providing information for the proper implementation of the Project.

Section B: Implementation Modalities

1. Operational Manual

The MOB shall take all action required to ensure that the Operational Manual is applied and followed at all times in the implementation, monitoring and evaluation of Part A of the Project.

2. Environmental Management Plan for Part A of the Project

The MOB shall take all measures necessary to carry out the measures identified under the Environmental Management Plan for Part A of the Project at all times in a timely manner, ensuring that adequate information on the implementation of said measures is suitably included in the Project progress reports to be prepared pursuant to the provisions of paragraph 1 of Section C of this Schedule.

Section C: Reporting on Progress and Mid-Term Review

1. Progress Reporting

Without limitation upon the provisions of Section 9.07 of the General Conditions, the MOB shall, commencing on November 30, 2006, and thereafter, not later than November 30 and May 31 in each calendar year and until Project completion, prepare and furnish to the Bank a semi-annual progress report, of such scope and in such detail as the Bank shall reasonably request, describing, in accordance with the MOB Monitoring and Evaluation Indicators, the progress achieved in the implementation of Part A of the Project during the preceding calendar semester and the updated Monitoring and Evaluation Indicators for the upcoming calendar semester.

2. Mid-Term Review

The MOB shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the MOB Monitoring and Evaluation Indicators, the carrying out of Part A 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 November 30, 2008, a mid-term report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this paragraph, on the progress achieved in the carrying out of Part A 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 Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, by February 28, 2009, or such later date as the Bank shall request, the report referred to in paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Part A 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.