

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF050539 HR

Global Environment Facility Trust Fund Grant Agreement

(Karst Ecosystem Conservation Project)

between

REPUBLIC OF CROATIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

acting as an Implementing Agency of the Global Environment Facility

Dated June 19, 2002

GEF TRUST FUND GRANT NUMBER TF050539 HR

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated June 19, 2002, between the REPUBLIC OF CROATIA (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 No. 94-2);

(C) the second replenishment of the GEF Trust Fund was approved on the basis set forth in Resolution No. 98-2 of July 14, 1998, of the Executive Directors of the Bank (Resolution No. 98-2);

(D) 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 to be funded from contributions to the GEF Trust Fund under Resolution No. 98-2, which may include funds carried over from the first replenishment of the GEF Trust Fund under Resolution No. 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 October 6, 1999), 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 (1), (2), (3), (4), (5), (6), (7) (8), (9), (10), (14), (17), (18), and (21), and Sections 2.02 and 2.03;

- (iii) Section 3.01;
- (iv) Section 4.01 and Section 4.06;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (c), (d), (e), (f), (i), (k), (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 (c), 12.03 and 12.04.

(b) The General Conditions shall be modified as follows:

- (i) a new paragraph (22) shall be added to the end of Section 2.01 to read as follows: “the term “Special Drawing Rights” and the symbol “SDR” mean special drawing rights as valued by the International Monetary Fund in accordance with its Articles of Agreement”;
- (ii) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), and 6.02 (f) thereof 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;
- (iii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
- (iv) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (v) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (vi) the term “Loan Account”, wherever used in the General Conditions,

means the GEF Trust Fund Grant Account, an account opened by the Bank on its books in the name of the Recipient to which the amount of the GEF Trust Fund Grant is credited; and

(vii) a new paragraph (q) is added to 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.”.

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) “Beneficiary” means an individual, or an entity eligible for a Sub-grant (hereinafter defined) in accordance with the eligibility criteria specified in the Operational Manual (hereinafter defined), and for whose benefit a Sub-grant is provided or proposed to be provided;

(b) “Environmental Management Plan” or “EMP” means the plan, satisfactory to the Bank, prepared and adopted by the Recipient, describing the environmental mitigation, monitoring, and institutional measures under the Project;

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

(d) “IAPSO” means the Inter-Agency procurement Services office of the United Nations Development Programme (UNDP);

(e) “MEPP” means the Borrower’s Ministry of Environmental Protection and Physical Planning, or any legal successor thereto;

(f) “Operational Manual” means the manual referred to in paragraph 3 (b) of Schedule 1 to this Agreement, setting forth the criteria and procedures for and defining terms and procedures applicable to provision and implementation of Sub-grants; as such manual may be amended from time upon the agreement with the Bank;

(g) “PIP” means the Project implementation plan adopted by the Recipient setting forth the work program for the implementation of the Project and the key instruments for the execution, coordination of the Project, including procurement and financial management procedures;

(h) “PIU” means the Project Implementation Unit established within MEPP (as defined hereinafter), or any legal successor thereto;

(i) “Project Steering Committee” means the committee established pursuant to the Decree of the Minister of Environmental Protection and Physical Planning dated February 20,

2002 as referred to in paragraph 2 (c) of Schedule 4 to this Agreement;

(j) “Project Region” means a geographical area within the Karst Region (as defined hereinafter) including the three counties of Primorje-Gorski Kotar, Lika-Senj, and Zadar, and as it may be amended from;

(k) “Karst Region” means a geographical area with the Dinarid Mountain range characterized by the presence of limestone or other soluble rocks and which hosts a unique subterranean Karst habitats;

(l) “Special Account” means the account referred to in Section 2.02 (a) to this Agreement;

(m) “Sub-grant” means a grant made or proposed to be made by the Recipient to an eligible Beneficiary out of the proceeds of the GEF Trust Fund Grant for the financing of a Sub-project;

(n) “Sub-grant Agreement” means an agreement between the Recipient and a Beneficiary and referred to in paragraph 4 (b) of Schedule 4 to this Agreement; and

(o) “Sub-project” means an activity to be carried out by a Beneficiary and in respect of which a Sub-grant is provided, or proposed to be provided, for the benefit of the Beneficiary.

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 in various currencies equivalent to four million and one hundred thousand Special Drawing Rights (SDR 4,100,000).

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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Recipient on account of Sub-grants made under Part B.4 of the Project to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the GEF Trust Fund account is requested; and (ii) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and operating costs required for carrying out the Project other than for Part B.4 of 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 Euros 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 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2007 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 MEPP with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices and with due regard to ecological and environmental factors, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(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 4 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, consultants' services, and operating costs required for the Project and to be financed out of the proceeds of the GEF Trust Fund Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.08 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.

ARTICLE IV

Financial Conditions

Section 4.01. (a) The Recipient shall maintain or cause to be maintained a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures in respect of the Project and each Sub-project (including its cost and the benefits to be derived from it).

(b) The Recipient shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing

standards acceptable to the Bank, consistently applied, 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, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts and the audit thereof as the Bank shall 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 shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for 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;
- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. The Recipient, through the PIU, shall prepare and furnish to the Bank a Financial Monitoring Report in a form and substance satisfactory to the Bank, which:

- (a) (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, and showing separately funds provided from the proceeds of the Grant; and explains variances between 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 Financial Monitoring Report shall be furnished to the Bank not later than 45 days after the end of the first semester 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 semester; thereafter, each Financial Monitoring Report shall be furnished to the Bank not later than 45 days after each subsequent semester, and shall cover such semester.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely that the Operational Manual and PIP shall have been amended, suspended, abrogated or waived without the Bank's prior consent.

ARTICLE VI

Effective Date; Termination

Section 6.01. The date of ninety (90) days from the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.02. This Agreement shall continue in effect until the GEF Trust Fund Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Katanciceva 5
HR-10000 Zagreb

Republic of Croatia

Facsimile

385-1-4922-583

385-1-4922-598

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile

INTBAFRAD
Washington, D.C.

248423 (MCI)
64145 (MCI)

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

REPUBLIC OF CROATIA

By /s/ Mato Crkvenac

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT
as an implementing agency of the Global Environment Facility

By /s/ Andrew N. Vorkink

Country Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

Part A: General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the GEF Trust Fund Grant, the allocation of the amounts of the GEF Trust Fund Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the GEF Trust Fund Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	625,000	85%
(2) Goods	800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local

		expenditures for other items procured locally
(3) Consultants' services, including audit services and training	1,850,000 100%	
(4) Sub-grants	400,000 100%	
(5) Operating Costs	125,000	80% until October 31, 2004 and 50% thereafter
(6) Unallocated	<u>300,000</u>	
TOTAL	4,100,000	

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; and

(c) the term "training" means expenditures incurred by the Recipient in connection with the carrying out of training activities under the Project, including: (i) fees of consultants, including educational or other institutions; and organizations providing training services; and (ii) cost of study tours, workshops, and related travel, expenditures and boarding lodging, and per diem allowances of training participants;

(d) the term "operating costs" means incremental operating expenditures incurred by the PIU on account of Project implementation, including travel and translation expenses; office equipment and maintenance, office supplies and vehicle maintenance.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; except that withdrawals, in aggregate amount not to exceed \$250,000 equivalent, may be made on account of payments for expenditures before that date, but after January 1, 2002; and (b) in respect of payments made for expenditures under Category (4) unless the Operational Manual, satisfactory to the Bank, has been approved by the Recipient and furnished to the Bank.

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 for: (a) goods under contracts costing

less than \$100,000 equivalent; (b) works under contracts costing less than \$200,000 equivalent; (c) services of consulting firms under contracts costing less than \$100,000; (d) services of individual consultants under contracts costing less than \$50,000 equivalent; (e) incremental operating costs; and (f) Sub-grants, 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 payment made from the GEF Trust Fund Grant Account was used for any expenditure not consistent 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 or the portion thereof as specified by the Bank.

SCHEDULE 2

Description of the Project

The objective of the Project is to: (i) strengthen institutional and technical capacity for biodiversity conservation of the Karst environment; (ii) integrate biodiversity conservation into physical planning and sectoral strategies; (iii) strengthen management of protected areas; and (iv) promote entrepreneurial and tourism activities which support sustainable natural resource use and conservation.

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: Strengthening of national capacity to conserve biodiversity and support sustainable resource use

1. Provision of technical assistance to improve the legal and regulatory framework for biodiversity conservation, and provision of training to government officials, non-governmental organizations, communities and representatives of civil society for implementation of biodiversity regulations.

2. Provision of technical assistance to strengthen the capacity to ensure biodiversity conservation through, among others: (i) preparation of protected area management and planning guidelines including biodiversity concerns; (ii) preparation of guidelines for community and NGO participation in protected area management; (iii) preparation of protected area system market analysis, financial strategy, and promotion and marketing plan; (iv) carrying out a pilot project on biodiversity information dissemination; and (v) development and carrying out of training programs on standards of conducts for forest rangers.

3. Carrying out of feasibility studies for biodiversity conservation in the Project Region, including Ogulin and the Kupa Valley areas, provision of equipment for underwater biodiversity monitoring, and revision of the list of taxa under legal protection in the Project Region, including Ogulin and Kupa Valley areas.

4. Provision of technical assistance, goods, and training to carry out biodiversity inventory, mapping and monitoring, and development of a GIS in the selected areas.

5. Provision of technical assistance, training and workshops, and goods to develop and carry out a public awareness campaign strategy in support for biodiversity conservation with the participation of civil society.

Part B: Establishment of a community-based mechanisms for biodiversity conservation and sustainable resource use in the Karst Region

1. Provision of technical assistance and works to promote sustainable nature based tourism including: (i) the development of a local level tourism strategy in the Karst Region; (ii) the design of a visitor management plan for selected protected areas; and (iii) the preparation and carrying out of works on selected segments of a hiking trail within the Karst Region.

2. Development of national park promotion materials and the preparation of field guides for the Karst Region.

3. Provision of technical assistance, goods, and works to improve protected area management and services for biodiversity conservation in selected areas of the Karst Region, including: (i) refurbishing of existing visitor structures, information kiosks, and research facilities; (ii) development of management plans for protected areas; (iii) development of program promoting community involvement in the decision making process; (iv) carrying out physical improvements in parts and provision of necessary equipment; and (v) provision of training in the areas of monitoring and research for biodiversity conservation.

4. Provision of sub-grants to Beneficiaries for carrying out the Conservation and Rural Revitalization Grants Program (CRRG) aimed at supporting entrepreneurial projects in biodiversity conservation and sustainable use of biological resources in the Karst Region.

5. Carrying out of an inventory of natural resources of the Risnjak National Park region; development of the Risnjak National Park Management Plan and of a tourism marketing plan for the said area; and organization of study tours and workshops in the area of protected area management.

Part C: Project Management and Monitoring

Provision of technical assistance, including audit services, goods, and training to the PIU and local PIU for purposes of management of Project implementation.

* * *

The Project is expected to be completed by June 30, 2007.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient.

(b) Grouping of contracts

To the extent practicable, contracts for Goods _____ shall be grouped in bid packages estimated to cost \$100,000 _____ equivalent or more each.

[(d) Two-stage bidding procedure

The bidding procedure for _____ shall be carried out in two stages in accordance with the provisions of paragraph 2.6 of the Guidelines.]

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$945,000 equivalent and goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$116,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

Good estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$182,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Works, Goods and Services under Sub-projects

Works, goods and services under Sub-projects shall be procured in accordance with the provisions of paragraph 3.15 of the Guidelines and procedures set forth in the Operational Manual.

5. Procurement of UN Agencies

Goods to be procured in accordance with the provision of Part C.2 of this Section may be procured through IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods estimated to cost the equivalent of \$2100,000 or more and for works estimated to cost the equivalent of \$2200,000 or more the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: the first contract for goods and works to be procured in accordance with the provisions of Part C.1 above: (i) the first contract for goods to be procured in accordance with the provisions of Part C.2 above; and (ii) the first contract for goods to be procured in accordance with the provisions of Part C.3 above, the following procedures shall

apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Recipient shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting or shopping procedures, the Recipient shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services for _____ [under Part __ of the Project], estimated to cost less than \$[200,000] equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for carrying out public awareness and promotional activities under Part A (5) of the Project, and services for carrying out audit of the Project, and estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services under Part ____ of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a))

and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Recipient through MEPP shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to 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 August 31, 2004, 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 September 30, 2004, 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.

2. The Recipient shall:

(a) maintain during the execution of the Project, the PIU within MEPP with staff and resources as shall be required to perform its duties in respect of overall management and implementation of the Project in a manner satisfactory to the Bank;

(b) establish by not later than October 30, 2002 and maintain during the execution of the Project, the local branch of the PIU in Gospic with staff and resources as shall be required to

perform its duties in respect of the local management and implementation of the Project;

(c) maintain during the execution of the Project the Project Steering Committee, comprising of representatives inter alia, from MEPP, Ministry of Agriculture and Forestry, and State Water Directorate, which shall provide oversight and policy guidance for overall implementation of the Project, and not amend its composition without the prior agreement of the Bank; and

(d) establish by not later than October 30, 2002 and maintain during the execution of the Project local advisory groups in the Project Region to assist the PIU, such groups to have a membership and functions satisfactory to the Bank.

3. The Recipient shall ensure that the Project is carried out in accordance with the PIP and that all measures necessary for the carrying out of the EMP are taken in a timely manner.

4. For the purposes of carrying out Part B (4) of the Project, the Recipient, through MEPP, shall:

(a) ensure that Sub-projects shall be selected, approved, implemented and evaluated in accordance with the criteria and procedures set forth in the Operational Manual;

(b) for purposes of each Sub-grant, the Recipient shall, through MEPP or PIU on behalf of MEPP, as the case may be, conclude an agreement with the Beneficiary in the form of the model based on a model form provided in the Operational Manual (Sub-Grant Agreement), setting forth the respective obligations of the parties thereunder, including but not limited to:

(i) a description of the Sub-project and an estimate of the cost thereof, disbursement schedules and procurement procedures, as they may apply, and the amount of the Beneficiary's contribution to the cost of the Sub-project;

(ii) the obligation of the Beneficiary: (A) to carry out the Sub-project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and with due regard to ecological and environmental factors, and to maintain adequate records; and (B) upon completion of the Sub-Sub-project, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;

(iii) the obligation of the Beneficiary to provide all such information as the Bank or the Recipient shall reasonably request relating to the implementation of the Sub-project and the performance of the

Beneficiary thereunder;

- (iv) the obligation of the Beneficiary not to use the proceeds of a Sub-grant to finance taxes or duties levied on or in respect of eligible expenditures relating to a Sub-project, or land acquisition;
- (v) the obligation of the Beneficiary to procure works, goods and services under the Sub-project in accordance with the procedures set forth in the Operational Manual;
- (vi) the obligation of the Beneficiary to maintain records and accounts for the proceeds of expenditures incurred under the Sub-project and financed from the Sub-grant and to submit to the Recipient at regular intervals statements with respect to such records and accounts; and
- (vii) the right of the Recipient to suspend or terminate the right of the Beneficiary to the use of the proceeds of a Sub-grant upon failure by such Beneficiary to perform its obligations under such agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) 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 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 an amount equivalent to Euro 400,000 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 an amount equivalent to Euro 250,000 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 Special Drawing Rights 1,000,000.

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 of the Project, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, 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.

