

CONFORMED COPY

GEF TRUST FUND GRANT NUMBER TF 055978-HU

Global Environment Facility Trust Fund Grant Agreement

(Nutrient Reduction Project)

between

REPUBLIC OF HUNGARY

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

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

Dated May 15, 2006

GEF TRUST FUND GRANT NUMBER TF 055978-HU

GLOBAL ENVIRONMENT FACILITY TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 15, 2006, between the REPUBLIC OF HUNGARY (the Recipient) and 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.

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;

(D) Part A of the Project will be carried out by the Municipality of Budapest (MOB, as further defined in paragraph (l) of Section 1.02 of this Agreement): (i) utilizing a portion of the financing made available by the Bank, acting in its own capacity, under the Loan Agreement No. 4512-HU (Municipal Wastewater Project) between the Bank and the MOB, as amended as of even date herewith (the MOB Loan Agreement, as further defined in paragraph (n) of Section 1.02 of this Agreement); and (ii) with the Recipient's assistance and, as part of such assistance, the Recipient will make a portion of the proceeds of the GEF Trust Fund Grant available to the MOB, as provided in this Agreement; and

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the GEF Trust Fund Grant to the Recipient upon terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Bank and the MOB (the MOB Project Agreement, as further defined in paragraph (o) of Section 1.02 of this Agreement);

NOW THEREFORE, the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the “General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans” of the Bank, dated May 30, 1995 (as amended through May 1, 2004), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (2), (3), (4), (5), (6), (7), (8), (14), (15), (16), (18) and (21), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Sections 4.01 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (a), (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; and
 - (x) Article XI; and
 - (xi) Sections 12.01 (c), 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Bank”, wherever used in the General Conditions, other than in Sections 2.01 (6), 6.02 (f) and 5.01 (a) thereof, means the Bank acting as an implementing agency of the GEF, except that in Section 6.02, the term “Bank” shall also include the Bank acting in its own capacity;
 - (ii) the term “Borrower”, wherever used in the General Conditions, means the Recipient;

- (iii) the term “Loan Agreement”, wherever used in the General Conditions, means this Agreement;
- (iv) the term “Loan” and “loan”, wherever used in the General Conditions, means the GEF Trust Fund Grant;
- (v) the term “Loan Account”, wherever used in the General Conditions, means the GEF Trust Fund Grant Account;
- (vi) a new sub-paragraph is added after sub-paragraph (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) “BMSC” means the Budapest Municipal Sewerage Company, Ltd, a limited liability company established pursuant to Act No. LV of 1992 of the Recipient based on regulations established in Act No. LIV of 1992 of the Recipient pursuant to resolution No.1317/1993 (XI.25) of the General Assembly of the MOB (as hereinafter defined in paragraph (l) of this Section) and to the Deed of Foundation dated December 1, 1993, or any successor thereto;

(b) “DDNP” means the Duna Drava National Park, a protected area in accordance with the Decree of the Recipient’s Ministry of Environment and Area Development 7/1996 (IV.17) dated April 17,1996, under the responsibility of the DDNPD (as hereinafter defined in paragraph (c) of this Section);

(c) “DDNPD” means the Duna-Drava National Park Directorate, the Recipient’s regional governmental body primary responsible for nature conservation, established and operating as an organization of the Recipient’s administration under the supervision of the MOEW (as hereinafter defined in paragraph (p) of this Section), as a separate, self-managing body of the central budget pursuant to the provisions of the Government Decree 341/2004 dated October 22, 2004;

(d) “Eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(f) “Environmental Management Plan for Part A of the Project” and “EMP Part A” mean the MOB environmental management plan dated June 29, 2005, describing the environmental, mitigation, monitoring and institutional measures to be undertaken by the MOB (as hereinafter defined in paragraph (l) of this Section) under Part A of the Project to ensure that all environmental concerns are adequately taken into account in the carrying out of the works and activities thereunder;

(g) “Environmental Management Plan for Part B of the Project” and “EMP Part B” mean the DDNPD environmental management plan dated June 25, 2005, describing the environmental, mitigation, monitoring and institutional measures to be undertaken by the DDNPD and the WD (as hereinafter defined in paragraph (z) of this Section) under Part B of the Project to ensure that all environmental concerns are adequately taken into account in the carrying out of the works and activities thereunder;

(h) “Environmental Management Plan” means, indistinctively, the EMP Part A or the EMP Part B; and the term “Environmental Management Plans” means the EMP Part A and the EMP Part B collectively;

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

(j) “Fiscal Year” means the twelve (12) month period corresponding to any of the Recipient’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(k) “Implementation Grant Agreement” means the Implementation Grant Agreement to be concluded between the MOEW (as hereinafter defined in paragraph (p) of this Section), on behalf of the Recipient, the MOB (as hereinafter defined in paragraph (l) of this Section), the DDNPD and the WD (as hereinafter defined in paragraph (z) of this Section) pursuant to the provisions of Section 3.01 (c) of this Agreement: (i) defining the main roles and responsibilities, respectively, of the MOB, the MOEW, the DDNPD and the WD in the implementation of the Project; and (ii) setting forth the arrangements necessary for the making of a portion of the proceeds of the GEF Trust Fund Grant available to the MOB and the WD for the said purposes; and such term includes all schedules to the Implementation Grant Agreement;

(l) “MOB” means the Municipality of Budapest;

(m) “MOB Enabling Legislation” means the Recipient’s Law on Local Governments (Act No. LXV) dated 1990 according to which the MOB has been established and is functioning, as the same may be amended from time to time;

(n) “MOB Loan Agreement” means the Loan Agreement dated September 22, 1999, between the Bank and the MOB for the Municipal Wastewater Project (Loan No. 4512-HU), and such term includes all schedules and agreements supplemental to the MOB Loan Agreement;

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

(p) “MOEW” means the Recipient’s Ministry of Environment and Water;

(q) “MOEW Monitoring and Evaluation Indicators” means the agreed performance indicators set forth in a letter of even date herewith to be utilized by the MOEW and the WD, on behalf of the DDNPD, under Part B of the Project to measure the impacts of Part B of the Project on the reduction of nutrients in the DDNPD and the degree to which the objectives thereof are being achieved;

(r) “MOEW Project Management Unit” or “PMU” means the unit established by and within the MOEW, and referred to in paragraph 1 of Section A of Schedule 4 to this Agreement;

(s) “Operational Manual” means the manual to be developed and adopted by the MOEW, the MOB, the WD (as hereinafter defined in paragraph (z) of this Section) and the DDNPD, setting forth the institutional, implementation, administrative and monitoring arrangements for the Project, as the same may be updated and amended from time to time in accordance with the provisions of paragraph 3 of Section B of Schedule 4 to this Agreement;

(t) “Procurement Plan” means the Recipient’s procurement plan, dated February 16, 2006, covering the initial eighteen-month period (or longer) of Project implementation, as the same shall be updated from time to time, at least every twelve months, or as required in accordance with the provisions of Section 3.02 of this Agreement, to cover succeeding twelve-month periods of Project implementation;

(u) “Project Implementation Unit of the WD” or “PIU-WD” means the unit established by and within the WD (as hereinafter defined in paragraph (z) of this Section) for the implementation of Part B of the Project, on behalf of the DDNPD, and referred to in paragraph 3 of Section A of Schedule 4 to this Agreement;

(v) “Project Implementation Unit of the MOB” or “PIU-MOB” means the unit established by and within the MOB to carry out, among others, the implementation of Part A of the Project, and referred to in paragraph 1 of Section A of Schedule 2 to the Project Agreement;

(w) "Project Steering Committee" or "PSC" means the Committee established and referred to in paragraph 2 of Section A of Schedule 4 to this Agreement;

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

(y) "Special Account" means the account referred to in Part B of Schedule 1 to this Agreement; and

(z) "WD" means the South-Transdanubian Environmental Protection and Water Management Directorate, a regional state institution under the supervision of the MOEW operating as an independent legal entity on the central state budget pursuant to the provisions of the Government Decree 341-2004 dated October 22, 2004, and its Founding Charter No. 7496/18/2003 dated December 23, 2003.

Section 1.03. Each reference in the General Conditions to the Project implementation entity shall be deemed as a reference, respectively: (i) under Part A of the Project, to the MOB; (ii) under Part B of the Project, to the WD; and (iii) under Part C of the Project, to the MOEW.

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 twelve million five hundred thousand Dollars (\$12,500,000).

Section 2.02. The amount of the GEF Trust Fund Grant may be withdrawn from the GEF Trust Fund Grant Account in accordance with the provisions of Schedule 1 to this Agreement for 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.

Section 2.03. The Closing Date shall be December 31, 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: (i) shall carry out Parts B and C of the Project through the MOEW with due diligence and efficiency and in

conformity with appropriate administrative, 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, promptly as needed, the funds, facilities, services and other resources required for Parts B and C of the Project; and (ii) without any limitation or restriction upon any of its other obligations under the GEF Trust Fund Grant Agreement, shall cause the MOB to carry out Part A of the Project and perform in accordance with the provisions of the MOB Project Agreement all the obligations of the MOB therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the MOB to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts B and C of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Recipient shall make the proceeds of the GEF Trust Fund Grant allocated from time to time for Part A of the Project available to the MOB, and for Parts B and C of the Project to the MOEW and the WD, respectively, in both cases on a grant basis and under the terms of an Implementation Grant Agreement.

(d) The Recipient shall exercise its rights under the Implementation Grant Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the GEF Trust Fund Grant, and, except as the Bank shall otherwise agree, the Recipient shall not amend, abrogate or waive the Implementation Grant Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of goods, works and services required for Parts B and C 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 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient, through the MOEW, shall update the Procurement Plan for Parts B and C 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 3.03. For the purposes of Section 9.07 (c) of the General Conditions and without limitation thereto, the Recipient, through the MOEW, shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Bank, a plan designed to ensure the future sustainability of Parts B and C of the Project; and

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

Section 3.04. The Bank and the Recipient hereby agree that 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 Part A of the Project shall be carried out by the MOB pursuant to the provisions of Section 2.03 of the MOB Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient, through the MOEW, shall maintain a financial management system for Parts B and C of the Project, 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 MOEW, shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Bank), audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) 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 the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient, through the MOEW, shall:

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

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 1 of Section C of Schedule 4 this Agreement, the Recipient, through the MOEW, 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 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 the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of Parts B and C of the Project;
- (iii) sets forth the status of procurement under of the Project, as at the end of the period covered by said report; and
- (iv) consolidates the financial monitoring reports provided to the MOEW by the MOB for Part A of the project under Article IV of the MOB Project Agreement with the financial monitoring reports prepared by the MOEW for Parts B and C of the Project.

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

later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The MOB shall have failed to perform any of its obligations under the MOB Project Agreement.

(b) (i) Subject to sub-paragraph (ii) of this paragraph:

(A) the right of the MOB to withdraw the proceeds of the Loan No. 4512-HU shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the MOB Loan Agreement, or

(B) Loan No. 4512-HU shall have become due and payable prior to the agreed maturity thereof.

(ii) Sub-paragraph (i) of this paragraph shall not apply if the MOB establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the MOB to perform any of its obligations under the MOB Loan Agreement; and (B) adequate funds for Part A of the Project are available to the MOB from other sources on terms and conditions consistent with the obligations of the MOB under the MOB Project Agreement.

ARTICLE VI

Effectiveness; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the GEF Trust Fund Grant within the meaning of Section 12.01 (c) of the General Conditions, namely that the Implementation Grant Agreement has been executed.

Section 6.02. The following are specified as additional matters, within 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 MOB Project Agreement has been duly authorized by the MOB and is legally binding upon the MOB in accordance with its terms; and

(b) that the Implementation Grant Agreement has been duly authorized or ratified and is legally binding upon its parties 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 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
Jozsef nador ter 2-4
1369 Budapest
Republic of Hungary

Facsimile:

(36-1) 318-3305

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)

(1-202) 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 Budapest, Republic of Hungary, as of the day and year first above written.

REPUBLIC OF HUNGARY

By: /s/ Tamas Katona

Authorized Representative

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

By: /s/ Daniela Gressani

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the GEF Trust Fund Grant

A. General

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

<u>Category</u>	Amount of the GEF Trust Fund Grant Allocated (Expressed in Dollars)	% of Expenditures to be Financed
(1) Goods, works and Consultants' services under Part A of the Project	6,500,000	80%
(2) Goods, works and Consultants' services under Part B of the Project	4,860,000	80%
(3) Goods and Consultants' services and Training under Part C of the Project	330,000	80%
(4) Unallocated	<u>810,000</u>	
TOTAL	<u>12,500,000</u>	

2. For the purposes of this Schedule, the term "Training" means expenditures incurred by the Recipient to finance the cost of training related to the Project and carried out under Part C of the Project.

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

4. The Bank may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for all expenditures under contracts for goods, works, services and training not subject to the Bank's Prior Review, as stipulated in the

Procurement Plan, all under such terms and conditions as the Bank shall specify by notice to the Recipient.

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

B. Special Account

1. The Recipient may open and maintain in Dollars a special deposit account in the State Treasury of Hungary, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

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

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

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

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

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

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

(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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based

Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the GEF Trust Fund Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Recipient shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Recipient may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

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

**Annex A
to
SCHEDULE 1**

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

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$1,250,000 to be withdrawn from the GEF Trust Fund Grant Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Bank a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested.
 - (b) For replenishment of the Special Account, the Recipient shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Bank the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.
3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the GEF Trust Fund Grant minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the GEF Trust Fund Grant Account of the remaining unwithdrawn amount of the GEF Trust Fund Grant shall follow such procedures as the Bank shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Bank shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B
to
SCHEDULE 1**

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

1. Withdrawals from the GEF Trust Fund Grant Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the GEF Trust Fund Grant Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the GEF Trust Fund Grant, the Bank shall, on behalf of the Recipient, withdraw from the GEF Trust Fund Grant Account and deposit into the Special Account an amount equal to the lesser of: (i) the amount so requested; and (ii) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (i) to reduce Budapest's discharge of nutrients (nitrogen and phosphorous) into the Danube river, and consequently into the Black Sea; (ii) to enhance the nutrient trapping capacity of Gemenc and Beda-Karapanca wetlands situated in the lower Hungarian part of the Danube river; and (iii) to serve as a model for similar nutrient reduction initiatives in Hungary and other Danube basin countries.

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: Development of Tertiary Treatment Capability at the North Budapest Wastewater Treatment Plant

Upgrading of the North Budapest Wastewater Treatment Plant to the tertiary level of treatment for nitrogen and phosphorous reduction, including provision of works and the required equipment, through the use of technology compliant with the European Union and Hungarian legislation and regulations.

Part B: Wetland Restoration in the Duna-Drava National Park

Rehabilitation of about ten thousand (10,000) hectares of wetlands to develop their nutrient trapping capacity in the areas of Gemenc and Beda-Karapanca within the DDNP, including the provision of works for clearing, dredging and construction /installation of regulating water structures and equipment and: (i) carrying out of a comprehensive baseline study to assess the areas' environmental quality, to help determine the precise location of two pilots, and to provide recommendations on the design of a water quality monitoring and evaluation system; (ii) on the basis thereof, design and installation of a monitoring and evaluation system for the evaluation of Project impacts in terms of reduction of nutrients and phosphorous; (iii) adapt a methodology of impact evaluation; and (iv) development of a DDNPD Special Area Management Plan aimed at develop measures to best accommodate authorized uses and protection measures in the DDNP area.

Part C: Dissemination and Replication

Carrying out of: (i) a comprehensive end-of-Project impact evaluation and result analysis study of Parts A and B of the Project, including a cost-benefit analysis; (ii) on the basis thereof, dissemination, public awareness and replication activities, such as workshop and public communication campaigns, including for dissemination activities to foster replication in the Recipient's territory or in other parts of the Danube river basin; (iii) a Project launch workshop; (iv) auditing services under the Project; and (v) training

to strengthen the MOEW, the MOB and the WD's Project implementation capabilities and to build the capacity of the DDNPD staff for the efficient development and operation of wetlands for nutrient trapping.

* * *

The Project is expected to be completed by June 30, 2011.

SCHEDULE 3

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 and 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 4

Implementation Program

Section A: Institutional Arrangements

1. The MOEW and its PMU

The Recipient, through the MOEW, shall have overall responsibility for the Project's implementation management, including Project oversight and reporting to the Bank, inter-agency coordination and direct responsibility for implementation of Parts B (with the cooperation of the WD) and C of the Project. For such purposes, the Recipient shall maintain throughout Project implementation the Project Management Unit with adequate financial and human resources to ensure quality and timely coordination. More specifically, the PMU shall oversee, coordinate, administer, monitor and evaluate Project implementation, acting as the Bank's counterpart for any Project implementation requirement.

2. Project Steering Committee

In order to ensure appropriate inter-agency coordination, provide overall guidance, facilitate integration and address potential conflicts, the Recipient shall maintain throughout Project implementation a Steering Committee chaired by a senior level official of the MOEW and comprising representatives from the MOF, the MOEW, the MOB, the DDNPD and the WD. The PSC shall be responsible for bringing the collective expertise of sectors at the national, regional and municipal level and stakeholders to help ensure that Project implementation proceeds toward its objectives and for channeling the dissemination of experiences and lessons generated under the Project.

3. PIU - WD

Specific implementation activities for Part B of the Project shall be vested in the PIU-WD. To those ends, the MOEW shall maintain the PIU-WD throughout Project implementation with financial and human resources adequate to enable it to appropriately carry out its responsibilities under Part B of the Project. The PIU-WD shall be responsible for the technical and financial management of Part B of the Project and the carrying out of the procurement, disbursement and reporting responsibilities.

Section B: Implementation Modalities

1. Part B of the Project

The Recipient, through the MOEW, shall cause the WD:

(a) to carry out, supervise and monitor Part B of the Project, including the development of a water quality monitoring system to measure the impact of the Part B of the Project on the reduction of nutrients in the DDNP, with due diligence and efficiency and in conformity with appropriate administrative, 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;

(b) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(c) to carry on its operations and conduct its affairs in accordance with sound administrative, economic, environment, financial, water management and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(d) upon Project completion, to transfer to the DDNPD the ownership and the responsibility for the operation and maintenance of the facilities constructed, areas rehabilitated and water quality monitoring system developed under Part B of the Project in accordance with a time action plan agreed by the Recipient and the Bank.

2. In order to assess and assist the WD authorities in the selection and monitoring of the planned interventions under Part B of the Project, the Recipient, through the MOEW, shall ensure that a panel of internationally recognized experts in the area of wetlands restoration and management shall provide appropriate advice and recommendations, all in accordance with the Operational Manual.

3. Operational Manual

(a) The Recipient, through the MOEW, 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 Parts B and C of the Project.

(b) Except as the Bank shall otherwise agree, the Recipient, through the MOEW, shall not amend, abrogate or waive the Operational Manual or any provision thereof.

4. Environmental Management Plans

The Recipient shall take all measures necessary on its behalf to carry out, or to enable the WD, as the case may be, to carry out, the measures identified under the Environmental Management Plans 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 by the WD pursuant to the provisions of the Implementation Grant Agreement.

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 Recipient, through the MOEW 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 MOEW Monitoring and Evaluation Indicators, the progress achieved in the implementation of Parts B and C of the Project during the preceding calendar semester and the updated MOEW Monitoring and Evaluation Indicators for the upcoming calendar semester.

2. Mid-Term Review

The Recipient, through the MOEW, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the MOEW Monitoring and Evaluation Indicators, the carrying out of Parts B and C 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 Parts B and C 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 Parts B and C 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 Parts B and C 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.