His Excellency
Petro Poroshenko
Minister
Ministry of Economic Development and Trade
12/2 Hrushevsky Street
Kiev, 01008
Ukraine

Re: Grant Agreement for Market Readiness Proposal
Partnership for Market Readiness (PMR) Multi-Donor Trust Fund
Grant No. TF012455

Excellency:

In response to the request for financial assistance made on behalf of Ukraine (the “Recipient”), I am pleased to inform you that the International Bank for Reconstruction and Development (“World Bank”), acting as administrator of grant funds provided by the contributors (“Contributors”) under the Partnership for Market Readiness Multi-Donor Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed three hundred and fifteen thousand United States Dollars (US$ 315,000) (“Grant” or “Preparation Phase Installment”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in the financing of the Preparation Phase Activities described in the Annex.

This Preparation Phase Installment is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Contributors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Contributors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The World Bank may subsequently enter into a supplementary agreement to this Agreement with the Recipient for the purpose of extending a second phase installment to assist the Recipient in its implementation of the Market Readiness Proposal during the Implementation Phase, upon the allocation of the funding by the governing body of the PMR and subject to the availability of funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Preparation Phase Activities in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized
official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By Qimiao Fan
Country Director
Ukraine, Belarus and Moldova
Europe and Central Asia

AGREED:
UKRAINE

By: 
Name: Olena Makviu
Title: Acting Minister, Ministry of Economic Development and Trade
Date: October 19, 2012

Enclosures:


(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.**

(a) The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions"), with the modifications set forth in paragraphs (b), (c) and (d) below, constitute an integral part of this Agreement.

(b) The following terms shall be added after paragraph 26 of the Appendix to the Standard Conditions:

(i) “27. “Implementation Phase” means the phase in which the Recipient implements the activities described in the Market Readiness Proposal.”

(ii) “28. “Market Readiness Proposal” a proposal to be formulated by the Recipient, which sets forth the road map or the plan for putting in place market readiness components.”

(iii) “28. “PMR Governance Framework” means the constituting document of the PMR, adopted at the organizational meeting of the PMR, as may be amended from time to time in accordance with its terms.”

(c) The definition of the term “Project” in paragraph 18 of the Appendix to the Standard Conditions is replaced to read as follows, and wherever used in the Standard Conditions, the term “Project” is replaced by the term “Preparation Phase Activities”:

“Preparation Phase Activities” means the activities described in the Grant Agreement in relation to the Recipient’s formulation of a Market Readiness Proposal, for which the Preparation Phase Installment is made.”

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, the PMR Governance Framework, or in this Agreement.

Article II
Execution of Preparation Phase Activities

2.01. **Objectives and Description.** The objective of the Preparation Phase Activities is to assist the Recipient to formulate a Market Readiness Proposal. The Preparation Phase Activities consist of the following parts:

(a) Conduct assessment and studies required for development of Ukrainian domestic cap and trade carbon market, with emphasis placed on finalization of Market Readiness Proposal;

(b) Prepare terms of reference for the work that needs to be undertaken during the Implementation Phase;
(c) Convene multi-stakeholder consultations among key entities on the Market Readiness Proposal; and

(d) Project management to coordinate PMR activities, including Audit.

2.02. Execution Generally. The Recipient declares its commitment to the objectives of the Preparation Phase Activities. To this end, the Recipient shall carry out the Preparation Phase Activities through its State Environmental Investment Agency which will be responsible for the overall implementation of the Project, under the oversight of the Ministry of Ecology and Natural Resources, in accordance with the provisions of (a) Article II of the Standard Conditions, (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”), and (c) this Article II.

2.03. Contributor Visibility and Visit. (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the PMR contributor(s)’ support for the Preparation Phase Activities.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the PMR contributor(s) to visit any part of the Recipient’s territory for purposes related to the Preparation Phase Activities.

2.04. Preparation Phase Activities Report and Completion Report. The Recipient shall prepare the Preparation Phase Activities Report and Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Preparation Phase Activities Report shall cover the period starting from signature of this Agreement until the submission of the Market Readiness Proposal by the Recipient to the Partnership for the Market Readiness and shall be furnished to the World Bank not later than one month after the market Readiness Proposal is approved by the governing body of the PMR, or December 31, 2015, whichever is earlier. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.

2.05. Financial Management.

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Preparation Phase Activities are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each six months, covering the six months, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements for the Preparation Phase Activities audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.
2.06. **Procurement.**

(a) **General.** All goods, non-consulting services and consultants' services required for the Preparation Phase Activities and to be financed out of the proceeds of the Preparation Phase Installment shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Preparation Phase Activities in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of Shopping.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants’ Qualifications; and (B) Selection of Individual Consultants.

(d) Logistic services required for the international and national symposium, seminars, workshop and other training programs estimated to cost less than US$100,000 equivalent per contract, shall be procured by Shopping.
Review by the World Bank of Procurement Decisions. Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: Contracts subject to Prior Review as defined in the Procurement Plan. All other contracts shall be subject to Post Review by the World Bank.

**Article III**
Withdrawal of Proceeds

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Preparation Phase Installment in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Preparation Phase Installment (“Category”), the allocations of the amounts of the Preparation Phase Installment to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services including Audit, Training and Workshops, and Stakeholder Consultations</td>
<td>315,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>315,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purpose of Section 3.01 the terms: (i) “Training and Workshops” means the costs associated with training and workshop participation of personnel involved in the implementation of the Preparation Phase Activities including travel and subsistence costs for training and workshop participants, costs associated with securing the services of trainers and workshop speakers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training courses and workshop preparation and implementation; and (ii) “Stakeholder Consultations” means consultations, events and meetings with relevant agencies, local officials and relevant stakeholders on the preparation of the Market Readiness Proposal, monitoring verification and reporting system, and market mechanisms.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2015.
Article IV

Recipient’s Representative; Addresses

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Economic Development and Trade.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Economic Development and Trade
12/2 M. Hrushevsky St.
Kyiv, 01008
Ukraine

Facsimile:
+38044 226-3181

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INTBAFRAD
Telex: 248423 (MCI) or 64145 (MCI)
Facsimile: 1-202-477-6391