Global Environment Facility
Trust Fund
Grant Agreement

(Coastal Cities Pollution Control Project 2)

between

REPUBLIC OF CROATIA

and

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

Dated February 6, 2009
GLOBAL ENVIRONMENT FACILITY TRUST FUND
GRANT AGREEMENT

AGREEMENT dated February 6, 2009, entered into between THE REPUBLIC
OF CROATIA (“Recipient”); and INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT (“Bank” or “World Bank”), acting as an
implementing agency of the Global Environment Facility (“GEF”).

The Recipient and the Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various
Funds, dated July 20, 2006 (“Standard Conditions”), constitute an integral part of
this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this
Agreement have the meanings ascribed to them in the Standard Conditions, this
Agreement, the Loan Agreement, or in the Project Agreement; and the term
“Monitoring and Evaluation Indicators for Parts 1, 2 and 3.1 of the Project”
means the agreed monitoring and evaluation indicators set forth in a letter of
even date herewith to be utilized by the Recipient to measure the progress in the
implementation of Parts 1, 2 and 3.1 of the Project and the degree to which the
objectives thereof are being achieved.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the Project described
in Schedule 1 to this Agreement (“Project”). To this end, the Recipient shall: (i)
carry out Part 3.2 of the Project through the MEPPC; and (ii) cause Parts 1, 2
and 3.1 of the Project to be carried out by Hrvatske Vode (“Project Implementing
Entity”) in accordance with the provisions of Article II of the Standard
Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and
except as the Recipient and the Bank shall otherwise agree, the Recipient shall
ensure that the Project is carried out in accordance with the provisions of
Schedule 2 to this Agreement.
Article III
The Grant

3.01. The Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to six million four hundred thousand United States Dollars ($6,400,000) (“Grant”) to assist in financing part of the cost of Parts 1, 2 and 3.1 of the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

Article IV
Additional Remedies

4.01. The Additional Events of Suspension referred to in Section 4.02 (i) of the Standard Conditions consists of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) The Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under this Agreement.

Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the Bank has been furnished to the Bank that the conditions specified below have been satisfied:

(a) That the execution and delivery of this Agreement on behalf of the Recipient has been duly authorized or approved by all necessary governmental and corporate action.

(b) That the Loan Agreement of even date herewith between the Recipient and the Bank, providing a loan in support of the Project (“Loan Agreement”), has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it, other than the effectiveness of this Agreement, have been fulfilled.

5.02. As part of the evidence to be furnished pursuant to Section 5.01 (a), there shall be furnished to the Bank an opinion or opinions satisfactory to the World Bank of counsel acceptable to the Bank or, if the Bank so requests, a certificate satisfactory
to the Bank of a competent official of the Recipient, showing, on behalf of the Recipient, that this Agreement has been duly authorized or approved by, and executed and delivered on its behalf and is legally binding upon it in accordance with its terms.

5.03. Except as the Recipient and the Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.04. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date one hundred twenty (120) days after the date of this Agreement, unless the Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

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

Ministry of Finance
Katanciceva 5
10000 Zagreb
Republic of Croatia

Facsimile:

(385-1) 4922-598
6.03. 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

AGREED at Zadar, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By: /s/ Ivan Suker
Authorized Representative

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

By: /s/ Andras Horvai
Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are: (i) to improve the provision of efficient and sustainable wastewater services in participating coastal municipalities; and (ii) to reduce the nutrient load entering the Recipient’s coastal waters from, and pilot innovative wastewater treatment solutions in, selected municipalities.

The Project constitutes the second phase of the Program, and consists of the following parts:

Part 1: Wastewater Investments

1.1 Financing and carrying out of Sub-projects for construction, rehabilitation and expansion of:

   (a) sewerage networks, main collectors, pumping stations, wastewater treatment facilities, and submarine outfalls in selected Municipalities; and

   (b) enhanced nutrient reduction wastewater treatment facilities in selected Municipalities.

1.2 Carrying out of feasibility studies, environmental impact assessments and preparation of other documentation necessary to secure location and construction permits, detailed design and final bidding documents for the works to be financed under Part 1.1 of the Project.

Part 2: Institutional Strengthening and Program Management

2.1 Institutional strengthening of HV and MRDFWM in sector development and EU accession support, including the provision of consultants’ services and equipment required for: (i) the implementation of the Water Management Strategy; (ii) the establishment of a monitoring and benchmarking system in HV to monitor MWSC operational, financial and environmental performance; (iii) the carrying out of studies to design and implement sludge and sewage treatment and disposal solutions for MWSCs; and (iv) the carrying out of an in-depth study on investment needs and financing plan to meet EU requirements, including preparation of feasibility studies and bidding documents for projects eligible for EU financing.

2.2 Institutional strengthening of MWSCs aimed at the improvement of their financial and operating efficiency, including works, equipment, software, consultants’ services and training required for the improvement of billing and collection, the reduction of non-revenue water, establishment of cost centers in multi-service utilities, improvement of operational efficiency, cadastral survey of network conditions,
establishment of cadastre of pipes, remote sensing, staff training and other cost efficiency measures.

2.3 Provision of consultants’ services and equipment to support the PIU in Project implementation, including completing the preparation and appraisal of Sub-projects, auditing, training, public information and communication.

Part 3: Seawater Quality Monitoring

Improvement of the coverage of the networks which monitor the quality of wastewater and seawater with a view to provide sufficient and adequate information of the Borrower’s coastal waters and discharges from wastewaters and to improve the coordination, comparability and the analytical quality of the results, as follows:

3.1 Improvement and expansion of the capacity of the HV monitoring systems to assess the impact of the Program on the quality of coastal waters, through the provision of consultants’ services and equipment, state-of-the-art technologies, including monitoring of the enhanced nutrient reduction waste water treatment plans, research to measure ecological impacts, and dissemination activities.

3.2 Strengthening of MEPPPC environmental monitoring capabilities to assess the quality of the Recipient’s Adriatic Sea waters and the impact of the Project on seawater quality, through the provision of consultants’ services and equipment, including the extension of monitoring activities to all MWSCs participating in the Project and increased focus on EU compliance.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Subsidiary Loan and Grant Agreement

1. For the purpose of carrying out of Parts 1, 2 and 3.1 of the Project, the Recipient shall make the proceeds of the Grant allocated from time to time to Categories (1), (2) and (3) available to the Project Implementing Entity under a Subsidiary Loan and Grant Agreement to be entered into between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Bank.

2. The Recipient shall exercise its rights under the Subsidiary Loan and Grant Agreement in such manner as to protect the interests of the Recipient and the Bank and to accomplish the purposes of the Grant. Except as the Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Loan and Grant Agreement or any of its provisions.

B. Safeguards Compliance

The Recipient, through the MRDFWM, shall take all measures within its control to ensure that the Project Implementing Entity carry out and screen Sub-projects to ensure their consistency with the principles and requirements set forth in the Resettlement Policy Framework and the Environmental Safeguard Framework and the satisfaction of any and all applicable requirements for the preparation, disclosure and implementation of a site-specific EIA, EMP and/or LARAP, as the case may be, before the submission of any withdrawal request in respect of any Sub-project necessitating the respective EIA, EMP and/or LARAP.

C. Operational Manual

The Recipient, through the MRDFWM, shall take all action required on its part to ensure the Project is carried out in accordance with the requirements set forth or referred to in the Operational Manual.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports; Completion Report

1. The Recipient, through the MEPPPC, shall take all action required on its part to monitor and evaluate the progress of Parts 1, 2 and 3.1 of the Project and cause Project Reports to be prepared in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the Monitoring and Evaluation Indicators for Parts 1, 2
and 3.1 of the Project. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

2. The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

B. Mid-Term Review

The Recipient, through the MRDFWM, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators for Parts 1, 2 and 3.1 of the Project, the carrying out of Parts 1, 2 and 3.1 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 March 30, 2011, a report integrating the results of the monitoring and evaluation activities and setting out the measures recommended to ensure the efficient carrying out of Parts 1, 2 and 3.1 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, on or about June 30, 2011 or such later date as the Bank shall request, the report referred to in the preceding paragraph (b) and, thereafter, take all measures required to ensure the efficient completion of Parts 1, 2 and 3.1 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.

C. Financial Management; Financial Reports; Audits

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

2. The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the Bank.

3. The Recipient shall have its Financial Statements for the Project audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one Fiscal Year. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.
Section III. Procurement

All goods, services (other than consultants’ services), works, and consultants’ services required by the Project Implementing Entity’s implementation of Parts 1, 2 and 3.1 of the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.

Section IV. Withdrawal of Grant Proceeds

A. General

The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article III of the Standard Conditions, (ii) this Section, and (iii) 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 Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (Expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) under Part 1.1 (b) of the Project, excluding those financed under Category (1) (b) hereof</td>
<td>4,250,000</td>
<td>20%</td>
</tr>
<tr>
<td>(b) for the constructed treatment wetlands facility under Part 1.1 (b) of the Project</td>
<td>850,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ Services under Parts 1, 2 and 3.1 of the Project</td>
<td>650,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Unallocated</td>
<td>650,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>6,400,000</td>
<td></td>
</tr>
</tbody>
</table>
B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed Euro 500,000 equivalent may be made for payments made prior to this date but on or after July 29, 2008, for Eligible Expenditures under Category (2); or

   (b) on account of payments for works under Category (1), until and unless the Project Implementing Entity has submitted to the Bank a written attestation for each Sub-project that entails the works in respect of which the withdrawal is requested that:

       (A) the Sub-project does not require the submission, preparation and disclosure of a site-specific EIA, EMP or LARAP, as the case may be; or

       (B) the Sub-project does require the submission, preparation and disclosure of a site-specific EIA, EMP or LARAP, as the case may be, and such requirements have been fulfilled to the satisfaction of the Bank.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is September 30, 2014.