

CONFORMED COPY

LOAN NUMBER 4084 LT

Loan Agreement

(Highway Project)

between

REPUBLIC OF LITHUANIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 10, 1996

LOAN NUMBER 4084 LT

LOAN AGREEMENT

AGREEMENT, dated September 10, 1996, between REPUBLIC OF LITHUANIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Bank to assist in the financing of the Project;

(B) Part B of the Project will be carried out by the Municipality of Vilnius with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Municipality of Vilnius a portion of the proceeds of the Loan as provided in this Agreement;

(C) the Borrower intends to contract from the European Bank for Reconstruction and Development (EBRD) a loan (the EBRD Loan) in an amount equivalent to fourteen million one hundred thousand Dollars (\$14,100,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EBRD Loan Agreement) to be entered into between the Borrower and EBRD;

(D) the Borrower intends to contract from European Union Aid for Eastern Europe (EU-Phare) a grant (the EU-Phare Grant) in an amount equivalent to one million European Currency Units (ECU1,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EU-Phare Grant Agreement) to be entered into between the Borrower and EU-Phare;

(E) the Borrower intends to contract from the Government of Finland (Finland) a grant (the Finnish Grant) in an amount equivalent to two hundred and ten thousand Dollars (\$210,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Finnish Grant Agreement) to be entered into between the Borrower and Finland; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and the Municipality of Vilnius;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01 The "General Conditions Applicable to Loan and Guarantee Agreements for Single Currency Loans" of the Bank, dated May 30, 1995, (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "DERS" means the Department of Environment Protection and Road Traffic Safety within the Borrower's Ministry of Transport;

(b) "LRA" means the Lithuanian Road Administration, a public agency operating within the Borrower's Ministry of Transport;

(c) "Investment Manual" means the LRA's investment manual as the same may be amended from time to time;

(d) "Municipalities" means the Municipality of Vilnius and the Municipality of Kaunas;

(e) "Pavement and Bridge Management Systems" means LRA's pavement and bridge management systems as agreed with the Bank from time to time;

(f) "PIU" means the Project Implementation Unit established within LRA;

(g) "Project Agreement" means the agreement between the Bank and the Municipality of Vilnius of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(h) "Road Fund Law" means the Borrower's Road Fund Law adopted by the Parliament of the Borrower (the Seimas) on January 24, 1995, as amended on March 28, 1996;

(i) "LRA Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(j) "MV Special Account" means the account referred to in Section 2.02 (c) of this Agreement;

(k) "Special Accounts" means the LRA Special Account and the MV Special Account;

(l) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and the Municipality of Vilnius pursuant to Section 3.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and

(m) "Subsidiary Loan" means the loan made under the Subsidiary Loan Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, an amount equal to nineteen million Dollars (\$19,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan 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 and works required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of Part A of the Project, open and maintain in Dollars a special deposit account (the LRA Special Account) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the LRA Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

(c) The Borrower may, for the purposes of Part B of the Project, open and maintain in Dollars a special deposit account (the MV Special Account) in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the MV Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower of such later date.

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.05. (a) The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, at a rate for each Interest Period equal to LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.
- (iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Dollars for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent ($1/2$ of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof

allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable semi-annually on March 15 and September 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. The Municipality of Vilnius is designated as representative of the Borrower in respect of Part B of the Project for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under this Loan Agreement: (i) shall carry out Part A of the Project through LRA with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices; (ii) shall cause the Municipality of Vilnius to perform in accordance with the provisions of the Project Agreement all the obligations of the Municipality of Vilnius 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 Municipality of Vilnius to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; (iii) shall cause the Municipality of Kaunas to carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and technical practices; and (iv) shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall relend out of the proceeds of the Loan the amount allocated from time to time to Category 1 (d) of the table set forth in paragraph 1 of Schedule 1 to this Agreement to the Municipality of Vilnius under a subsidiary loan agreement to be entered into between the Borrower and the Municipality of Vilnius, under terms and conditions which shall have been approved by the Bank which shall include (i) the principal amount of the Subsidiary Loan shall be denominated and repayable in Dollars; (ii) the Municipality of Vilnius shall pay interest on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a variable interest rate equal to the rate applicable to the Loan as determined in accordance with Section 2.05 of this Agreement; and (iii) the term of the Subsidiary Loan shall be seventeen (17) years including a grace period of five (5) years.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

(d) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods and works required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. The Bank and the Borrower 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 B of the Project shall be carried out by the Municipality of Vilnius pursuant to Section 2.03 of the Project Agreement.

Section 3.04. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower 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 Borrower 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 Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices: (i) the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof; and (ii) the operations and financial condition of LRA.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles 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 (6) months after the end of each such year, 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 said 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 Loan Account were made on the basis of statements of expenditure, the Borrower 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 Loan 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.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) The Municipality of Vilnius shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Municipality of Vilnius will be able to perform its obligations under the Project.
- (c) The Road Fund Law shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of LRA to fulfill its functions with respect to maintenance of the road network.
- (d) The EBRD Loan Agreement, the EU-Phare Grant Agreement, or the Finnish Grant Agreement shall have failed to become effective by December 1, 1997, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(e) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

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

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraph (a) Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower;

(b) the event specified in paragraph (c) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (e)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (e)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following is specified as an additional matter, 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 namely: that the Project Agreement has been duly authorized by the Municipality of Vilnius, and is legally binding upon the Municipality of Vilnius in accordance with its terms.

Section 6.02. 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.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.08 of this Agreement, the Minister of Finance of the Borrower is designated as representative of the Borrower 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 Borrower:

Ministry of Finance
Sermuksniu 6
2696 Vilnius
Republic of Lithuania

Telex:

261252 FIMA SU

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:

INTBAFRAD 248423 (MCI)
Washington, D.C. 64145 (MCI)

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

REPUBLIC OF LITHUANIA

By /s/ Alfonsas Eidintas

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Paul Siegelbaum

Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

| Category | Amount of the Loan Allocated (Expressed in Dollars) | % of Expenditures to be Financed |
|--|--|---|
| (1) Works | | 75% |
| (a) For Part A (1) of the Project | 6,500,000 | |
| (b) For Part A (3) of the Project | 2,500,000 | |
| (c) For Part A (4) of the Project | 3,500,000 | |
| (d) For Part B (1) of the Project | 4,300,000 | |
| (2) Goods for Part A of the Project | 200,000 | 100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally |
| (3) Unallocated | 2,000,000 | |
| TOTAL | <u>19,000,000</u> ===== | |

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 Borrower for goods supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) payments made for expenditures under Category (1) (d), unless the Bank shall have received evidence satisfactory to it that the Subsidiary Loan Agreement satisfactory to the Bank, has been executed on behalf of the Borrower and the Municipality of Vilnius.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures (i) for works under contracts costing less than \$350,000 equivalent, and (ii) for goods under contracts costing less than \$200,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist in preserving the Borrower's road network and to improve the efficiency of the Borrower's road maintenance operations.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Lithuania Road Administration

- (1) Klaipeda-Vilnius-Belorussian Border East-West Motorway and Regional Road Network

Repair of sections of the Klaipeda-Vilnius-Belorussian Border East-West Motorway and the Regional Road Network selected in accordance with the criteria specified in paragraph 2 of Schedule 5 to this Agreement.

- (2) By-passes

Completion of partially constructed by-passes at Turzenai, Vilkaviskis, Silute, Siauliai and Daugai.

- (3) Bridges

Repair of about ten (10) bridges for the main road network.

- (4) Road Safety Program

Establishment of a Road Safety Program through the provision of technical assistance to DERS and LRA and carrying out of works to eliminate accident black spots and to improve road markings, guard rails and other safety measures.

- (5) Technical Assistance to LRA

Provision of technical assistance: (a) to assist LRA in identifying design and maintenance strategies and improving LRA's management systems; (b) to assist LRA in procurement, supervision of contracts and project accounting; (c) to provide training for private sector road construction companies; (d) to conduct a road network study; and (e) to conduct a study of the required level of financing needed to maintain the public road network of the Borrower and possible financing and collection mechanisms.

Part B: Municipality of Vilnius

- (1) Repair and upgrading of high priority streets selected in accordance with the criteria specified in paragraph 2 of Schedule 5 to this Agreement; and

- (2) Provision of technical assistance to assist the Municipality of Vilnius in matters relating to procurement, monitoring, project accounting and supervision of civil works.

Part C: Municipality of Kaunas

- (1) Repair and upgrading of streets required for an inner-city by-pass through the southeastern section of the city of Kaunas; and
- (2) Provision of technical assistance to assist the Municipality of Kaunas in matters relating to procurement, monitoring, project accounting and supervision of civil works.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Amortization Schedule

| Date Payment Due | Payment of Principal (expressed in Dollars)* |
|---|---|
| On each March 15 and September 15 beginning March 15, 2002 through March 15, 2013 | 790,000 |
| on September 15, 2013 | 830,000 |

* The figures in this column represent Dollar equivalents determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

SCHEDULE 4

Procurement

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

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. To the extent practicable, contracts for works to be procured in accordance with the provisions of paragraph 1 above, shall be grouped in bid packages estimated to cost \$1,000,000 equivalent or more each.

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 \$7,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Road signs and ancillary items required for the carrying out of the Road Safety Program under Part A (4) of the Project, up to an aggregate amount not to exceed \$200,000 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.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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

With respect to: (i) each contract awarded in accordance with Part B of this Schedule; and (ii) the first two contracts for works under each of Parts A and B of the Project awarded in accordance with Part C.1 of this Schedule, the procedures set forth in paragraphs 2 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.

SCHEDULE 5

Implementation Program

1. The Borrower shall maintain the PIU referred to in Section 1.02 (f) of this Agreement which, at all times, shall be staffed and shall operate in accordance with the implementation arrangements agreed between the Borrower and the Bank.

2. The Borrower shall cause LRA to use cost benefit analysis, in accordance with the principles agreed between LRA and the Bank, to determine the actual road segments to be repaired under the Project, as well as for all investments in the road sector during execution of the Project, and shall only undertake projects with a positive Net Present Value with priority given to investments with the highest ratios of Net Present Value to investment costs.

For the purposes of this paragraph:

"Net Present Value" means the present value of all expected cash inflows from an investment discounted at the cost of capital of ten percent (10%), compared to the initial investment.

3. By November 15 of each year during execution of the Project, the Borrower shall cause LRA to prepare annual work programs and financing plans for work to be carried out under the Project for the next calendar year and shall cause LRA to review these programs with the Bank before implementing the annual work program and financing plan agreed with the Bank. The annual financing plan shall include, among other things, (i) the amount of financing needed for LRA to carry out its share of Project activities; and (ii) the projected sources of this financing.

4. By November 15 of each year during execution of the Project, the Borrower shall cause LRA to submit to the Bank the results of the economic evaluations of all its proposed road maintenance and rehabilitation programs for the following year and road projects to be included in all its investment projects, based on methodologies established in the Investment Manual and the Pavement and Bridge Management Systems.

5. The Borrower shall:

(a) carry out a study on: (i) the required level of financing needed to maintain the Borrower's public road network; and (ii) the possible financing and collection mechanisms for road maintenance, in accordance with terms of reference agreed with EBRD; and

(b) review with the Bank, not later than December 31, 1997, the results and recommendations of the study referred to in subparagraph (a) above, and by June 30, 1998, put into effect such recommendations of the study as shall have been agreed with the Bank including, without limitation, presentation to the Borrower's Parliament of any amendments to the Road Fund Law agreed with the Bank.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory 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, 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 November 1, 1998, 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.

SCHEDULE 6

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Category/ies" means Categories (1) (a), (b) and (c) and (2) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in the case of the LRA Special Account, and Category (1) (d) set forth in said table in the case of the MV Special Account;

(b) the term "eligible expenditures" means expenditures, in the

case of the LRA Special Account, in respect of the reasonable cost of goods and works required for Part A of the Project and, in the case of the MV Special Account in respect of the reasonable cost of works required for Part B of the Project, and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Category/ies in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equal to \$1,300,000 in the case of the LRA Special Account and an amount equal to \$600,000 in the case of the MV Special Account to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective 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 respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for deposit into the respective 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 Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) Prior to or at the time of each such request, the Borrower 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 Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan 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 Borrower out of the respective Special Account, the Borrower 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 any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan 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 Borrower 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 Accounts;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account 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 Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the Borrower. 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 into the respective 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 any 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 Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective 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 any Special Account shall be made until the Borrower 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 any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

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

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.
