

CONFORMED COPY

LOAN NUMBER 3361 YU

(Kolubara B Thermal Power and Lignite Mine Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

ELEKTROPRIVREDA OF SERBIA

Dated September 12, 1991

LOAN NUMBER 3361 YU

LOAN AGREEMENT

AGREEMENT, dated September 12, 1991, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and ELEKTROPRIVREDA OF SERBIA (the Borrower).

WHEREAS (A) Socialist Federal Republic of Yugoslavia (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) by an agreement (the Agreement with Serbia) of even date herewith between the Bank and the Republic of Serbia (Serbia), Serbia has agreed to undertake such obligations toward the Bank as are set forth in the Agreement with Serbia;

(C) by an agreement (the EP(S) Agreement) of even date herewith between the Bank and the Electricity Generation Company of Serbia (EP(S)), EP(S) has agreed to undertake such obligations toward the Bank as are set forth in the EP(S) Agreement;

(D) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the Loan;

(E) on the basis of Article 11 of the Electricity Act (Official Gazette of Serbia No. 59/89) (the Electricity Act of Serbia), Article 141 of the statutes of the Borrower and Article 37 of the statutes of EP(S), the Borrower and EP(S) have entered into an agreement (the Transfer Agreement) dated August 16, 1990, pursuant to which the Borrower has agreed to construct the Kolubara B thermal power plant and Tamnava West Mine and, following completion of construction of said facilities, to transfer said facilities to EP(S) for their operation and maintenance; 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;

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" of the Bank, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) The last sentence of Section 3.02 is deleted.

(b) In Section 6.02, sub-paragraph (k) is re-lettered as sub-paragraph (l) and a new sub-paragraph (k) is added to read:

"(k) An extraordinary situation shall have arisen under which any further withdrawals under the Loan would be inconsistent with the provisions of Article III, Section 3 of the Bank's Articles of 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) "Statutes of the Borrower" means the statutes of the Borrower adopted by the Borrower on May 28, 1990; and

(b) "Statutes of EP(S)" means the statutes of EP(S) adopted by EP(S) on June 12, 1990.

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, various currencies that shall have an aggregate value equivalent to the amount of three hundred million dollars (\$300,000,000), being the sum of withdrawals of the proceeds of the Loan, with each withdrawal valued by the Bank as of the date of such withdrawal.

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 services 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 shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a

commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) On each of the semiannual interest payment dates specified in Section 2.06 of this Agreement, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay, on such date, interest and other charges on the Loan accrued and payable on or before the date set forth, and up to the amount allocated, in Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Bank and the Borrower.

Section 2.03. The Closing Date shall be June 30, 1997, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor 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 the Cost of Qualified Borrowings determined in respect of the preceding Semester, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rate applicable during such Interest Period.

(b) As soon as practicable after the end of each Semester, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Semester.

(c) For the purposes of this Section:

(i) "Interest Period" means a six-month period ending on the date immediately preceding each date specified in Section 2.06 of this Agreement, beginning with the Interest Period in which this Agreement is signed.

(ii) "Cost of Qualified Borrowings" means the cost, as reasonably determined by the Bank and expressed as a percentage per annum, of the outstanding borrowings of the Bank drawn down after June 30, 1982, excluding such borrowings or portions thereof as the Bank has allocated to fund: (A) the Bank's investments; and (B) loans which may be made by the Bank after July 1, 1989, bearing interest rates determined otherwise than as provided in paragraph (a) of this Section.

(iii) "Semester" means the first six months or the second six months of a calendar year.

(d) On such date as the Bank may specify by no less than six months' notice to the Borrower, paragraphs (a), (b) and (c) (iii) of this Section shall be amended to read as follows:

"(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 Quarter equal to the Cost of Qualified Borrowings determined in respect of the preceding Quarter, plus one-half of one percent ($1/2$ of 1%). On each of the dates specified in Section 2.06 of this Agreement, the Borrower shall pay interest

accrued on the principal amount outstanding during the preceding Interest Period, calculated at the rates applicable during such Interest Period."

"(b) As soon as practicable after the end of each Quarter, the Bank shall notify the Borrower and the Guarantor of the Cost of Qualified Borrowings determined in respect of such Quarter."

"(c) (iii) 'Quarter' means a three-month period commencing on January 1, April 1, July 1 or October 1 in a calendar year."

Section 2.06. Interest and other charges shall be payable semiannually on January 15 and July 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.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. Following completion of construction of the facilities under Parts A and B under the Project, the Borrower shall, in accordance with the terms and conditions of the Transfer Agreement, transfer said facilities to EP(S) for their operation and maintenance.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services 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 3.04. The Borrower shall carry out, on the basis of terms of reference and a timetable satisfactory to the Bank, an action plan for the rehabilitation of the power plants in Serbia.

Section 3.05. The Borrower shall:

(a) complete a study of load characteristics of end-users and, by January 31, 1992, furnish to the Bank for review and comment the findings and recommendations of said study; and

(b) on the basis of terms of reference satisfactory to the Bank and the results of the study referred to in paragraph (a) of this Section, promptly initiate the cost of service study included in Part D (3) of the Project, and, promptly upon the completion of said study, furnish to the Bank for review and comment, the findings and recommendations thereof.

Section 3.06. The Borrower shall:

(a) carry out, on the basis of terms of reference and a timetable satisfactory to the Bank, the study included in Part D (4) of the Project on the long-term mining development plan for the power plant at Kolubara; and

(b) prior to initiating any works for the expansion of the facilities constructed under the Project or the development or expansion of any other mines to supply the Kolubara B thermal power plant, furnish to the Bank for review and comment the findings and recommendations of said study.

Section 3.07. The Borrower shall carry out, on the basis of terms of reference and a timetable satisfactory to the Bank, the long-term program of regional air quality monitoring included in Part D (5) of the Project and, thereafter, take all measures necessary to ensure compliance with emission quality standards of Serbia.

Section 3.08. The Borrower shall:

(a) by June 30, 1992, carry out, on the basis of terms of reference satisfactory to the Bank, the study included in Part D (2) of the Project to identify the measures necessary to improve its accounting and financial management system and furnish to the Bank for review and comment the findings and recommendations of said study; and

(b) thereafter, put into effect, in accordance with a timetable satisfactory to the Bank, the recommendations agreed with the Bank for improving its accounting and financial management system.

Section 3.09. The Borrower shall, by October 31 of each year, beginning with its fiscal year ending on December 31, 1992, furnish to the Bank for review and comment its proposed investment program, together with the associated financing plan, for each of the Borrower's 1992 through 1996 fiscal years.

Section 3.10. The Borrower shall:

(a) beginning with the fiscal year commencing on January 1, 1993, furnish to the Bank for review and comment, by November 30 of each year, the proposed agreement with EP(S) for the allocation to the Borrower and EP(S) of revenues received by the Borrower and EP(S) from their respective operations, for each of its 1992 through 1996 fiscal years; and

(b) thereafter, enter into said proposed agreement for the respective year, taking into consideration the Bank's comments thereon.

Section 3.11. The Borrower shall, together with EP(S) in accordance with the provisions of Section 2.02 of the EP(S) Agreement:

(a) prepare, on the basis of the on-going study on underground mines in Serbia being carried out by the Belgrade Mining Institute and the Belgrade Institute for Economic Efficiency, an action program for restructuring said underground mines; and

(b) by March 31, 1992, furnish to the Bank for review and comment the findings and recommendations of said study, together with the proposed action program.

ARTICLE IV

Management and Operations of the Borrower

Section 4.01. The Borrower shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 4.02. The Borrower shall at all times operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and public utility practices.

Section 4.03. The Borrower shall take out and maintain with responsible insurers, or make other provision satisfactory to the

Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE V

Financial Covenants of the Borrower

Section 5.01. (a) The Borrower shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by an independent auditing organization acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than five months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) 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, accounts, and financial statements as well as 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, 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 or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Bank's representative to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 5.02. (a) Except as the Bank shall otherwise agree, the Borrower shall maintain, for each of its fiscal years after its fiscal year ending on December 31, 1992, a ratio of total operating cash expenses to total operating cash revenues not higher than .95.

(b) Before January 31, April 30, July 31 and October 31 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank,

review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year, and shall furnish to the Bank the results of such review upon its completion.

(c) If any such review shows that the Borrower would not meet the requirement set forth in paragraph (a) by 5% or more for either of the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "total operating cash expenses" means all cash expenses related to operations, including salaries, wages and other remuneration, administration, maintenance, but excluding interest and other charges on debt.
- (ii) The term "total operating cash revenues" means revenues from all sources related to operations.

Section 5.03. (a) Except as the Bank shall otherwise agree, the Borrower shall produce for each of its fiscal years after its fiscal year ending on December 31, 1992, a ratio of total operating expenses and debt service to total revenues not higher than .97.

(b) Before January 31, April 30, July 31 and October 31 in each of its fiscal years, the Borrower shall, on the basis of forecasts prepared by the Borrower and satisfactory to the Bank, review whether it would meet the requirements set forth in paragraph (a) in respect of such year and the next following fiscal year and shall furnish to the Bank the results of such review upon its completion.

(c) If any such reviews shows that the Borrower would not meet the requirements set forth in paragraph (a) by 5% or more for either of the Borrower's fiscal years covered by such review, the Borrower shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirement.

(d) For purposes of this Section:

- (i) The term "total revenues" means the sum of total operating revenues and net non-operating income.
- (ii) The term "total operating revenues" means revenues from all sources related to operations.
- (iii) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (a) above.
- (iv) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and adequate provision for depreciation of the average current gross value of the Borrower's fixed assets in operation, on a basis acceptable to the Bank, but excluding interest and other charges on debt.
- (v) The average current gross value of the

Borrower's fixed assets in operation shall be calculated as one half of the sum of the gross value of the Borrower's fixed assets in operation at the beginning and at the end of the fiscal year, as valued from time to time in accordance with sound and consistently maintained methods of valuation satisfactory to the Bank.

- (vi) The term "debt service requirements" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt.
- (vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Guarantor, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Bank.

Section 5.04. (a) The Borrower shall ensure that the average collection period for electricity sold does not exceed sixty (60) days in the 1992 and 1993 calendar year, forty-five (45) days in the 1994 calendar year and thirty (30) days in each succeeding calendar year.

(b) With respect to any customer account which is outstanding longer than the time period specified in paragraph (a) hereof, the Borrower shall:

- (i) take all measures necessary, including legal action, to ensure collection of all revenues due;
- (ii) make appropriate provisions in its accounts for doubtful debts; and
- (iii) give notice to the customer of the Borrower's intention to disconnect electricity service if payment is not received within thirty (30) days of the date of such notice.

(c) With respect to electricity purchased by the Borrower, the Borrower shall pay the account within sixty (60) days of the due date in the 1992 and 1993 calendar years, within forty-five (45) days of the due date in the 1994 calendar year and within thirty (30) days of the due date thereafter.

ARTICLE VI

Remedies of the Bank

Section 6.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) EP(S) shall have failed to perform any of its obligations under the EP(S) Agreement;
- (b) Serbia shall have failed to perform any of its obligations under the Serbia Agreement; and
- (c) the Electricity Act of Serbia or the Statutes of the Borrower or the Statutes of EP(S) or the Transfer Agreement shall have been amended, suspended, abrogated or terminated so as to affect substantially and materially the Borrower's ability to carry out any of its obligations under this Agreement or EP(S)'s ability to carry out any of its obligations under the EP(S) Agreement or

Serbia's ability to carry out any of its obligations under the Agreement with Serbia.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) and (b) of Section 6.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Bank to the Borrower; and

(b) the events specified in paragraph (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. 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 EP(S) Agreement has been duly authorized or ratified by EP(S), and is legally binding upon EP(S) in accordance with its terms; and

(b) that the Agreement with Serbia has been duly authorized or ratified by Serbia, and is legally binding upon Serbia in accordance with its terms.

Section 7.02. The date one hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The General Manager of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

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 (RCA),
Washington, D.C.	82987 (FTCC),
	64145 (WUI) or
	197688 (TRT)

For the Borrower:

Elektroprivreda of Serbia
Carice Milice 2
Belgrade
Yugoslavia

Telefax:

011/629-489

Telex:

11281

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.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ W. Wapenhans
Regional Vice President
Europe, Middle East and North Africa

ELEKTROPRIVREDA OF SERBIA

By /s/ D. Mujezinovic
Authorized Representative

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 Dollar Equivalent)	% of Expenditures to be Financed
(1) Equipment	152,400,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 75% of local expenditures for other items procured locally
(2) Civil works	4,600,000	100%
(3) Equipment erection works	40,400,000	92%
(4) Consultants' services and training	4,000,000	100%

Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(5) Interest and other charges on the Loan accrued on or before January 15, 1997	60,600,000	Amounts due pur- suant to Section 2.02 (c) of this Agreement

(6) Unallocated	38,000,000
	<hr/>
TOTAL	300,000,000 =====

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Guarantor for goods or services supplied from the territory of any country other than that of the Guarantor; and

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

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) meet the growth in demand for electricity in Serbia, including its supplies to other Republics of the Guarantor; (ii) facilitate rehabilitation of aging thermal generating units in Serbia; (iii) introduce a systematic air-quality monitoring and study program in the Kolubara area; and (iv) improve the financial performance of the Borrower and EP(S) and strengthen their capacities in financial management and accounting.

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:

Construction of a 7.0 million ton per year lignite mine at Tamnava West in Serbia.

Part B:

Construction of a 700 MW (2 x 350 MW) mine-head thermal power plant and auxiliary facilities at Kolubara B site located at the north end of Tamnava West mine field.

Part C:

Maintenance and rehabilitation of thermal power plants in Serbia.

Part D:

- (1) Carrying out a power plant rehabilitation program in Serbia for the 1991 through 1999 period.
- (2) Strengthening the financial management and accounting systems of the Borrower and EP(S).
- (3) Carrying out a cost of service studies for purposes of determining and monitoring tariff levels.
- (4) Carrying out a long-term mining development plan for the Kolubara area.
- (5) Adoption of a long-term regional air quality monitoring program.

* * *

The Project is expected to be completed by December 31, 1996.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
On each January 15 and July 15 beginning January 15, 1997 through July 15, 2006	15,000,000

* The figure in this column represents the dollar equivalent determined as of the respective dates of withdrawal. See General Conditions, Sections 3.04 and 4.03.

Premiums on Prepayment

Pursuant to Section 3.04 (b) of the General Conditions, the premium payable on the principal amount of any maturity of the Loan to be prepaid shall be the percentage specified for the applicable time of prepayment below:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	0.20
More than three years but not more than six years before maturity	0.40
More than six years but not more than 11 years before maturity	0.73
More than 11 years but not more than 13 years before maturity	0.87
More than 13 years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

2. Foreign contractors and suppliers shall not be required to register in Yugoslavia as a prerequisite for submitting bids. In the event that registration shall be required after a foreign contractor or supplier has been notified that he will be awarded a contract, the Borrower shall facilitate the registration.

3. Each contract for goods and works shall include a provision that the Borrower shall take all measures necessary to enable contractors and suppliers to import equipment and materials and specialized manpower as required to carry out their services.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Yugoslavia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Specialized equipment, such as laboratory instruments, measuring and testing apparatus for water treatment and environmental monitoring and spare parts, with the Bank's prior approval of a list thereof, for power plants rehabilitation under Part D (1) of the Project, estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount equivalent to \$6 million, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Contracts for spare parts which are needed for existing equipment for power plants rehabilitation, up to an aggregate amount not to exceed \$1,500,000, may, with the Bank's prior approval of a list thereof, be awarded after direct negotiations with the original suppliers of the equipment, in accordance with procedures acceptable to the Bank.

Part D: Review by the Bank of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$1,000,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Bank pursuant to said paragraph 2 (d) shall be furnished to the Bank prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, said procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Bank pursuant to said paragraph 3 shall be furnished to the Bank as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Bank has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part D of the Project, the Borrower shall employ management, financial and engineering consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Bank. Such

consultants shall be selected in accordance with principles and procedures satisfactory to the Bank on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$15,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Bank a request or requests for a deposit or deposits 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 in the Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the 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 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 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 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 the 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; or

(b) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, less the amount of any outstanding special commitment 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 in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the 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 the 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 Account.

(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.

