

CONFORMED COPY

LOAN NUMBER 2878-0 YU
-1 YU
-2 YU
-3 YU

LOAN AGREEMENT

(Second Highway Sector Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA
PUTEVE S.R. CRNE GORE, TITOGRAD
(Self-Managing Republic Community of Interest
for Roads of the Socialist Republic of Montenegro, Titograd)

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA CESTE - ZAGREB
(Self-Managing Community of Interest for Roads of the
Socialist Republic of Croatia)

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PATISTA
MAKEDONIJE-SKOPJE
(Self-Managing Community of Interest for Roads of
Macedonia - Skopje)

SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PUTEVE VOJVODINE - NOVI SAD
(Self-Managing Community of Interest for Roads of
Vojvodina - Novi Sad)

and

SAVEZ SAMOUPRAVNIH INTERESNIH ZAJEDNICA ZA PUTEVE
JUGOSLAVIJE, BEOGRAD
(Federal Association of Republican and Provincial
Road Organizations of Yugoslavia, Belgrade)

Dated September 30, 1988

LOAN AGREEMENT

AGREEMENT, dated September 30, 1988, among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT, party of the first part (the Bank) and REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PUTEVE S.R. CRNE GORE, TITOGRAD (Self-Managing Republic Community of Interest for Roads of the Socialist Republic of Montenegro, Titograd) (sometimes called the Montenegrin Borrower), REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA CESTE - ZAGREB (Self-Managing Community of Interest for Roads of the Socialist Republic of Croatia) (sometimes called the Croatian Borrower), REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PATISTA MAKEDONIJE-SKOPJE (Self-Managing Community of Interest for Roads of Macedonia - Skopje) (sometimes called the Macedonian Borrower), SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PUTEVE VOJVODINE - NOVI SAD (Self-Managing Community of Interest for Roads of Vojvodina - Novi Sad) (sometimes called the Vojvodinan Borrower), parties of the second part,

(sometimes individually called a Borrower and all such parties of the second part sometimes collectively called the Borrowers) and SAVEZ SAMOUPRAVNIH INTERESNIH ZAJEDNICA ZA PUTEVE JUGOSLAVIJE, BEOGRAD (Federal Association of Republican and Provincial Road Organizations of Yugoslavia, Belgrade), party of the third part (sometimes called FARP);

WHEREAS (A) the Borrowers, having satisfied themselves 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) each of the Borrowers has agreed to carry out its Individual Part of the Project (defined hereinafter) described in Schedule 2 to this Agreement, and have taken or will take all such actions as are necessary to designate FARP as the representative of each of the Borrowers to carry out Part III of the Project and for certain other purposes under this Agreement;

(C) the Socialist Republic of Montenegro (Montenegro), the Socialist Republic of Croatia (Croatia), the Socialist Republic of Macedonia (Macedonia) and the Socialist Autonomous Province of Vojvodina (Vojvodina) have each taken all actions necessary to authorize: (i) the carrying out of the Individual Part of the Project with which it is concerned; (ii) the investment program and financing plan of such Individual Part of the Project, including the allocation of road user revenues adequate for road investments and maintenance, in accordance with the Letter of Development Policy dated May 25, 1983 from the Guarantor to the Bank relating to the Structural Adjustment Loan (Loan No. 2326 YU); and (iii) the provision of, inter alia, financial resources required for the completion of such Individual Part of the Project and its respective share in the financing of Parts II.B and III of the Project;

(D) Montenegro, Croatia, Macedonia and Vojvodina have each agreed to make available or cause to be made available any additional funds required for the carrying out of the Project in addition to the funds referred to in Recital (C) and the Loans provided hereunder;

(E) by an agreement (the Guarantee Agreement) of even date herewith between Socialist Federal Republic of Yugoslavia (the Guarantor) and the Bank, the Guarantor has agreed to guarantee the obligations of each Borrower in respect of each Loan as to payment of principal, interest and other charges and to undertake such other obligations as set forth in the Guarantee Agreement; and

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loans to the Borrowers 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 in Schedule 5 to this Agreement (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) "Individual Part of the Project", as used with respect

to any of the Borrowers, means such portion of the Project as shall be carried out within the jurisdiction of, or mainly for the benefit of, the Borrower or the Republic or the Province in which such Borrower is established and operating;

(b) "Republic" means any of the Socialist Republics of Montenegro, Croatia and Macedonia;

(c) "Province" means the Socialist Autonomous Province of Vojvodina;

(d) "Borrowers' Statutes" means (i) the Statutes of the Montenegrin Borrower, dated May 24, 1983, (ii) the Statutes of the Croatian Borrower, dated January 9, 1976, (iii) the Statutes of the Macedonian Borrower, dated June 29, 1982, and (iv) the Statutes of the Vojvodinan Borrower, dated September, 1983, all as may be amended to the date of this Agreement;

(e) "Social Accounting Service" means the Sluzba Drustvenog Knjigovodstva referred to in paragraph (5) of Article 281 of the Guarantor's constitution; and

(f) "Special Account" means any of the accounts of the Borrowers referred to in Section 2.02 (b) of this Agreement and "Special Accounts" means all such accounts collectively.

ARTICLE II

The Loans

Section 2.01. The Bank agrees to lend to each of the Borrowers, on the terms and conditions in the Loan Agreement set forth or referred to, an amount in various currencies equivalent to the following: Montenegrin Borrower: \$9,600,000; Croatian Borrower: \$5,900,000; Macedonian Borrower: \$17,900,000; and Vojvodinan Borrower: \$28,200,000.

Section 2.02. (a) The amount of each Loan may be withdrawn from the respective Loan Account in accordance with the provisions of Schedule 1 to this Agreement, as such Schedule may be amended from time to time by agreement between the Borrowers and the Bank, 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 respective Loan.

(b) Each of the Borrowers shall, for the purposes of its Individual Part of the Project, open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Bank. Deposits into, and payments out of, each Special Account shall be made in accordance with the provisions of Schedule 8 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1991 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrowers and FARP of such later date.

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

Section 2.05. (a) Each of the Borrowers shall pay interest on the principal amount of its Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one half per cent per annum above the Cost of Qualified Borrowings for the last Semester ending prior to the commencement of such Interest Period.

(b) As soon as practicable after the end of each Semester,

the Bank shall notify the Guarantor and the Borrowers of the Cost of Qualified Borrowings for such Semester.

(c) For purposes of this Section:

- (i) "Interest Period" means the six-month period commencing on each date specified in Section 2.06 of this Agreement, including the Interest Period in which this Agreement is signed.
- (ii) "Cost of Qualified Borrowings" means the cost of the outstanding borrowings of the Bank drawn down after June 30, 1982, expressed as a percentage per annum, as reasonably determined by the Bank.
- (iii) "Semester" means the first six months or the second six months of a calendar year.

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

Section 2.07. Each of the Borrowers shall repay the principal amount of its Loan in accordance with the respective amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.08. Each of the Borrowers shall designate, or cause to be designated, FARP as its representative for the purposes of taking any action required or permitted to be taken under the provisions set forth or referred to in Sections 2.02, 2.04, 2.05, 2.06 and 2.07 of this Agreement, and Articles III, IV and V and Section 6.05 of the General Conditions, and for such purpose, FARP and the Borrowers shall take such actions as are set forth in Schedule 6 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) Each of the Borrowers 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 its Individual Part of the Project, the Croatian Borrower shall carry out Part II.A of the Project and FARP shall carry out Parts II.B and III of the Project on behalf of the Borrowers: (i) in accordance with an action plan satisfactory to the Bank and with the specific investment program and financing plan of the respective Borrower contained therein; (ii) with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and highway transport practices; and (iii) in cooperation with the other Borrowers and FARP to ensure the most efficient execution of the Project as a whole, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the purpose.

(b) Without limitation upon the provisions of the paragraph (a) of this Section, each of the Borrowers shall include in its Individual Part of the Project only those road sections, the construction or improvement of which, are described in Schedule 2 to this Agreement or, in the case of the Vojvodinan Borrower, those road sections which shall have been agreed with the Bank on the basis of appropriate technical and economic feasibility studies under Part I.C.(ii) of the Project.

(c) Each of the Borrowers shall furnish to the Bank through FARP, for review and approval by the Bank, a summary of the technical and economic evaluation of the roads to be constructed under its Individual Part of the Project, each such evaluation to be prepared in accordance with the procedures, criteria and timetable set forth in the action plan referred to in paragraph (a)

hereof.

Section 3.02. During the implementation of the Project, each of the Borrowers shall:

(a) in coordination with FARP, prepare on an annual basis an updated investment program and financing plan taking into consideration: (i) actual execution of works under its Individual Part of the Project; (ii) detailed cost estimates for proposed works under its Individual Part of the Project; and (iii) the availability of financing including, inter alia, the need for increased road user charges for such proposed works;

(b) starting in 1988: (i) furnish to the Bank by April 30 of each year for the Bank's review and comments such updated investment program and financing plan in preliminary form; and (ii) furnish to the Bank for information by November 30 of each year said program and plan in final form, with the Bank's comments thereon taken into account; and

(c) starting in 1988, reflect in its budget for the following year, the final investment program and financing plan.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the civil works, goods and consultants' services required for the Project and to be financed out of the proceeds of the Loans shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. Each of the Borrowers shall construct the roads included in its Individual Part of the Project in accordance with the design standards set forth in Schedule 7 to this Agreement.

Section 3.05. Each of the Borrowers shall take or cause to be taken all such actions as are necessary in order to ensure that if any tolls are imposed on the use of any highway included under its Individual Part of the Project:

(a) such tolls shall be set at rates determined on the basis of the guidelines for the setting of toll rates prepared pursuant to the toll study carried out under the Eleventh Highway Project (Loan No. 1819 YU) (hereinafter called Toll Study); and

(b) toll collection facilities shall be established on the basis of the guidelines prepared pursuant to the Toll Study.

Section 3.06. Without limitation upon the provisions of Section 9.07 of the General Conditions, each of the Borrowers shall furnish through FARP the information pertaining to its Individual Part of the Project referred to in such Section 9.07 (iii) of the General Conditions, including reports containing the information specified in such Section 9.07 (iii) of the General Conditions in July and October of each year, which reports are to be furnished promptly upon their preparation but in any event not later than forty-five (45) days after the end of the reporting period.

Section 3.07. FARP shall maintain records and procedures adequate for the purposes of carrying out its responsibilities under Section 2.08 of this Agreement and assisting the Borrowers in carrying out their responsibilities under Section 3.06 of this Agreement and Section 9.07 of the General Conditions.

ARTICLE IV

Management and Operations of the Borrowers and FARP

Section 4.01. Each of the Borrowers shall exercise its powers and functions with respect to all public roads in its respective Republic or Province (except roads falling within the jurisdiction

of communes and municipalities), so as to ensure: (a) that such roads will be adequately maintained and repaired in accordance with sound engineering and financial practices, and that funds, facilities, services and other resources required therefor will be provided, promptly as needed; (b) that the systematic collection and recording of such technical, economic and financial data will be continued for the proper planning of maintenance, improvements and extensions of such roads; and (c) that the dimensions and axle-loads of vehicles using such roads shall not exceed such

limits as are appropriate to the design standards for such roads as set forth in Schedule 7 to this Agreement.

Section 4.02. Each of the Borrowers and FARP shall at all times carry out its operations and manage its affairs in accordance with sound engineering, business, financial and administrative principles and practices, and under the supervision of experienced and competent management.

Section 4.03. Each of the Borrowers 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 sound practice.

Section 4.04. Each of the Borrowers shall operate and maintain its plants, equipment and properties, and from time to time all necessary renewals and repairs thereof, in accordance with sound engineering and administrative practices.

Section 4.05. Each of the Borrowers shall at all times maintain the right to carry on its operations, and take all steps necessary to acquire, maintain and renew all rights and franchises which are necessary or useful in the conduct of its business.

Section 4.06. Except as the Bank may otherwise agree, none of the Borrowers shall sell, lease, transfer, assign or otherwise dispose of any of its rights, property or assets except in the ordinary course of business.

ARTICLE V

Financial Covenants

Section 5.01. Each of the Borrowers shall maintain records and accounts, including separate accounts for its Individual Part of the Project, adequate to reflect in accordance with consistently maintained appropriate accounting practices its highway operations and its financial resources and expenditures related to such operations.

Section 5.02. Each of the Borrowers shall:

(a) have the accounts referred to in Section 5.01 of this Agreement and financial statements (balance sheets, statements of income and expenses and related statements) and its Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by the Social

Accounting Service or another competent and experienced independent auditing organization acceptable to the Bank;

(b) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (i) certified copies of its financial statements for such year as so audited; and (ii) the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and

(c) furnish to the Bank such other information concerning said accounts, financial statements, records and expenditures, as

well as the audit thereof, as the Bank shall from time to time reasonably request.

Section 5.03. For all expenditures with respect to which withdrawals are requested from the respective Loan Account on the basis of statements of expenditure, each of the Borrowers shall:

(a) maintain, in accordance with Section 5.01 of this Agreement, records and accounts reflecting such expenditures;

(b) 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 respective Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(c) enable the Bank's representatives to examine such records; and

(d) ensure that such records and accounts are included in the annual audit referred to in paragraph (a) of Section 5.02 of this Agreement 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 VI

Remedies of the Bank

Section 6.01. (a) For the purposes of Section 6.02 of the General Conditions, the following additional events are specified pursuant to paragraph (k) thereof:

(a) Montenegro, Croatia, Macedonia or Vojvodina shall have failed to make available, as and when needed, the financial resources referred to in Recitals (C) and (D) of this Agreement;

(b) any provision (i) of the Statutes of any of the Borrowers as affect such Borrower's ability to carry out its Individual Part of the Project or such Borrower's existence as an independent enterprise, or (ii) of FARP's Statutes as affect its ability to carry out Parts II.B and III of the Project or any of its obligations in this Agreement contained, shall have been amended, suspended, abrogated or terminated without prior approval of the Bank; and

(c) any part of the principal amount of any loan to any of the Borrowers having an original maturity of one year or more shall, in accordance with its terms, have become due and payable in advance of maturity as provided in the relative contractual instruments, or any security for any such loan shall have become enforceable.

Section 6.02. For the purposes of Section 7.01 of the General Conditions, the following additional events are specified pursuant to paragraph (h) thereof, namely, that any of the events specified in paragraphs (a), (b) or (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) Montenegro, Croatia, Macedonia and Vojvodina have each

given the authorizations referred to in Recital (C) of this Agreement, in form and substance satisfactory to the Bank, and such authorizations are in full force and effect;

(b) Montenegro, Croatia, Macedonia and Vojvodina have each given guarantees, in form and substance satisfactory to the Bank, in respect of the provision of all necessary funds required for the carrying out of the relevant Individual Part of the Project, including cost overruns, as referred to in Recitals (C) and (D) of this Agreement, and such guarantees are in full force and effect;

(c) all necessary consents and approvals have been given for FARP to undertake its obligations under this Agreement; and

(d) the road user charges have been increased from the level in effect at July 1, 1987 to a level in line with the movement in the producer price index for industrial products at the date specified in Section 7.03 of this Agreement.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the authorizations referred to in paragraph (a) of Section 7.01 of this Agreement have been duly and validly given and are in full force and effect;

(b) that the guarantees referred to in paragraph (b) of Section 7.01 of this Agreement have been duly and validly given and are in full force and effect; and

(c) that the consents and approvals referred to in paragraph (c) of Section 7.01 of this Agreement have been duly and validly given and are in full force and effect.

Section 7.03. The date 120 days after the date of this Agreement is hereby specified for the purpose of Section 12.04 of the General Conditions.

ARTICLE VIII

Addresses

Section 8.01. 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:

INTBAFRAD

Telex:

440098 (ITT),

Washington, D.C.

248423 (RCA) or
64145 (WUI)

For the Borrowers:

Savez Samoupravnih Interesnih Zajednica
za Puteve Jugoslavije
Ljube Cupe 5
11000 Belgrade
Yugoslavia

Telex:

SSIZP 72548 YU

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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/ J. Harrison

Acting Director
Europe, Middle East and North Africa

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA
PUTEVE S.R. CRNE GORE, TITOGRAD
(Self-Managing Republic Community of Interest
for Roads of the Socialist Republic of
Montenegro, Titograd)

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA
CESTE - ZAGREB
(Self-Managing Community of Interest for
Roads of the Socialist Republic of Croatia)

REPUBLICKA SAMOUPRAVNA INTERESNA ZAJEDNICA ZA
PATISTA MAKEDONIJE-SKOPJE
(Self-Managing Community of Interest for
Roads of Macedonia - Skopje)

SAMOUPRAVNA INTERESNA ZAJEDNICA ZA PUTEVE
ODINE - NOVI SAD
(Self-Managing Community of Interest for
Roads of Vojvodina - Novi Sad)

SAVEZ SAMOUPRAVNIH INTERESNIH ZAJEDNICA ZA
PUTEVE JUGOSLAVIJE, BEOGRAD
(Federal Association of Republican
and Provincial Road Organizations of
Yugoslavia, Belgrade)

By /s/ Z. Kovacevic

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loans

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

Category	Amount of the Loans Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Montenegrin Borrower:		
(a) Civil works		
Rehabilitation	9,300,000	50%
(b) Planning equipment	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(c) Technical assistance and training	200,000	100%
TOTAL	9,600,000	

Category	Amount of the Loans Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(2) Croatian Borrower:		
(a) Road maintenance equipment and spare parts	4,800,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(b) Planning equipment	700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(c) Technical assistance and training	400,000	100%
TOTAL	5,900,000	

(3) Macedonian Borrower:

(a) Civil works

Rehabilitation	17,600,000	50%
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Category	Amount of the Loans Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(b) Planning equipment	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(c) Technical assistance and training	200,000	100%
TOTAL	17,900,000	

(4) Vojvodinan Borrower:

(a) Civil works

(i) New construction	23,500,000	45%
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(ii) Rehabilitation	4,400,000	50%
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(b) Planning equipment	100,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
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(c) Technical assistance and training	200,000	100%
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TOTAL	28,200,000	
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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 and 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, except that withdrawals in an aggregate amount not exceeding the equivalent of \$8,000,000 may be made on account of payments made for expenditures in respect of Category (4) (a) (i) before that date but after July 1, 1987.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to support planned development of the highway network in Yugoslavia by assisting the highway development programs of the Montenegrin, Vojvodinan and Macedonian Borrowers during the 1987-1990 period; and (b) to strengthen institutions in the highway sector in the areas of financial and investment planning, maintenance planning, rehabilitation planning and sector coordination.

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

Part I: Highway Construction, Reconstruction, Rehabilitation and Betterment

Construction, reconstruction, rehabilitation and betterment in Montenegro, Macedonia and Vojvodina of the following highway sections and the provision of highway maintenance and planning equipment therefor:

A. Montenegro

- (i) Rehabilitation and betterment of about 90 km of the two-lane Adriatic Highway between Kolasin, Ivangrad and the Serbian border.
- (ii) Rehabilitation and betterment of the 320 m concrete Durdevica Tara bridge on the River Tara.

B. Macedonia

- (i) Rehabilitation and betterment of about 80 km of the Trans-Yugoslav Highway between Gradsko and Gevgelija.
- (ii) Rehabilitation and betterment of about 88 km of primary roads between Skopje and Ohrid.

C. Vojvodina

- (i) Rehabilitation and betterment of about 31 km of the Trans-Yugoslav Highway between Sasinci and Kuzmin.
- (ii) Rehabilitation and betterment of additional road sections as agreed from time to time between the Bank and the Vojvodinan Borrower on the basis of feasibility studies and detailed designs.

Part II: Road Maintenance

A. Maintenance Planning System

Establishment of a pilot road maintenance planning system in Croatia, taking into account the characteristics of the roads network and its traffic, and the provision of road and bridge maintenance and toll equipment.

B. Maintenance System Equipment

Provision of equipment to the Montenegrin Borrower, Croatian Borrower, Macedonian Borrower and Vojvodinan Borrower for road maintenance planning.

Part III: Technical Assistance and Training

A. Project Preparation and Planning

A technical assistance program to strengthen FARP's capacity for project preparation and planning.

B. Training

A training program, including foreign training and local seminars, for the staff of the Borrowers and FARP in highway maintenance management, bridge management and maintenance and traffic management and safety.

* * * *

The Project is expected to be completed by December 31, 1990.
SCHEDULE 3

Amortization Schedules

Date of Payment Due	Payment of Principal (expressed in dollars)*
For Montenegrin Borrower:	
On each March 15 and September 15	
beginning March 15, 1991 through September 15, 2002	400,000
For Croatian Borrower:	
On each March 15 and September 15	
beginning March 15, 1991 through March 15, 2002	245,000
On September 15, 2002	265,000
For Macedonian Borrower:	
On each March 15 and September 15	
beginning March 15, 1991 through March 15, 2002	745,000
On September 15, 2002	765,000

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

Date of Payment Due	Payment of Principal (expressed in dollars)*
For Vojvodinan Borrower:	

On each March 15 and September 15

beginning March 15, 1991
through September 15, 2002 1,175,000

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

Premiums on Prepayment

The following percentages are specified as the premiums payable on repayment in advance of maturity of any portion of the principal amount of any Loan pursuant to Section 3.04 (b) of the General Conditions:

Time of Prepayment	Premium
	The interest rate (expressed as a percentage per annum) applicable to the balance outstanding on the Loan on the day of prepayment multiplied by:
Not more than three years before maturity	.20
More than three years but not more than six years before maturity	.40
More than six years but not more than eleven years before maturity	.73
More than eleven years but not more than thirteen years before maturity	.87
More than thirteen years before maturity	1.00

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Civil Works and Goods

A. International Competitive Bidding

1. Except as provided in Part B 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. All bidders for civil works included under the Project shall be prequalified as described in Part 1.3 of the Guidelines.

3. To the extent practicable, contracts for road maintenance equipment shall be grouped in a single bid package.

4. 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 respective Borrower shall facilitate the regis-

tration.

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

B. Other Procurement Procedures

1. Civil works estimated to cost the equivalent of \$3,000,000 or less per contract, but not more than the equivalent of \$7,900,000 in the aggregate in the case of the Montenegrin Borrower and not more than the equivalent of \$8,700,000 in the aggregate in the case of the Vojvodinan Borrower, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

2. Goods estimated to cost the equivalent of \$150,000 or less per contract, but not more than the equivalent of \$1,100,000 in the aggregate, may be procured under contracts awarded on the basis of comparison of price quotations solicited from at least three suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Bank.

C. Review by the Bank of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part A.2 hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

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

(a) With respect to each contract estimated to cost the equivalent of \$50,000 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 a 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 such 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 a 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 8 (the Special Accounts) to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Bank has authorized withdrawals from the Loan Accounts on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.03 (b) of this Agreement.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

For purposes of carrying out Part III of the Project, FARP shall employ highway management consultants whose qualifications, experience and terms and conditions of employment shall be satis-

factory 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

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Paragraph 4 of Section 2.01 is amended to read as follows:

"4. The term 'Loan' means any of the loans provided for in the Loan Agreement and the term 'Loans' means all such loans collectively."

2. Paragraph 6 of Section 2.01 is amended to read as follows:

"6. The term 'Borrower' means any of the parties to the Loan Agreement to which a Loan is made and the term 'Borrowers' means all such parties collectively."

3. Paragraph 10 of Section 2.01 is amended to read as follows:

"10. The term 'Loan Account' means any of the accounts opened by the Bank on its books in the name of a Borrower and the term 'Loan Accounts' means all such accounts collectively."

4. The last sentence of Section 3.02 is deleted.

SCHEDULE 6

Actions to be taken by each of the Borrowers and by FARP in accordance with the provisions set forth or referred to in Section 2.08 of the Loan Agreement:

1. (a) Upon any such Borrower's written request, FARP shall promptly take the following action with respect to the Loan of such Borrower:

- (i) make applications for withdrawal from the respective Loan Account and pay to the Borrower, or on its order, the amounts so withdrawn;
- (ii) request the Bank to enter into any special commitments in accordance with the provisions of Section 5.02 of the General Conditions;
- (iii) give the Bank notice of any repayment in advance of maturity in accordance with the provisions of paragraph (b) of Section 3.04 of the General Conditions;
- (iv) give the Bank any notice of cancellation in accordance with the provisions of Section 6.01 of the General Conditions; and
- (v) in general, take any action required or permitted to be taken by the Borrower in accordance with the provisions of the General Conditions.

(b) Any request submitted to FARP in accordance with the provisions of paragraph (a) above shall be in such form and include such supporting documentation as FARP shall determine in

accordance with the provisions of the Loan Agreement.

2. All payments to be made to the Bank by any of the Borrowers shall be made through FARP, provided that for such purpose:

(a) FARP shall open an account with Vojvodjanska Banka-Udruzena Banka, Novi Sad to be used exclusively for making such payments (the Special Fund), the necessary details about such Special Fund to be communicated to all Borrowers;

(b) each of the Borrowers shall make any such payment into the Special Fund in such currency or currencies, and not later than five working days before such date, as such payments have to

be made to the Bank in accordance with the provisions of the Loan Agreement;

(c) not later than 15 working days before any payment is to be made into the Special Fund in accordance with the provisions of paragraph (b) above, FARP shall advise the respective Borrowers of the currency or currencies of payment and of the payment due date; and

(d) using the funds paid by the Borrower into the Special Fund, FARP shall promptly make to the Bank the payments to be made by such Borrower.

3. FARP shall: (i) assign qualified and experienced staff in sufficient numbers for the carrying out of the actions on behalf of each of the Borrowers in accordance with this Schedule; (ii) periodically determine its costs and expenditures incurred in carrying out such actions; and (iii) charge each of the Borrowers with its share of such costs and expenditures. Each of the Borrowers shall promptly reimburse FARP for its share of such costs and expenditures as so determined by FARP.

SCHEDULE 7

Highway Design Standards

Each of the Borrowers shall construct the highways included in Part I of the Project in accordance with the design standards set out below:

Type of Terrain	Regional Roads			Moun- tainous	Primary Roads		
	Unit	Flat	Hilly		Flat	Hilly	Moun- tainous
Design Speed	km/hr	100- 120	100- 120	80- 100	80- 100	80- 100	40- 80
Maximum gradient	%	2.0	6.0	9.0	2	6	9
Road width (min.)	m	1x7.5- 2x7.5	2x7.5	1x7.5- 2x6.0	1x7.5-	1x7.5	1x7.0
Width of emergency lane	m	2.5	2.5	-	-	-	-
Width of shoulder	m	2x1.3		2x1.3	2x1.05	2x1.3	2x1.3
Horizontal curves	m	2,000- 700	700	2,000- 400	700- 700	2,000- 400	700- 100

Vertical curves							
Summits minimum	m	12,000	12,000	7,000	7,000	7,000	3,000
Sags minimum	m	8,000	8,000	5,000	5,000	5,000	2,000
Maximum single Design axle load	Ton	10	10	10	10	10	10
Type of wearing surface	-	Asphalt/Con-crete	Asphalt/Con-crete	Asphalt/Con-crete	Asphalt/Con-crete	Asphalt/Sur-face	Asphalt/Sur-face

(Check in part of Schedule)
 Surface dressing
 Surface dressing

Structures designed in compliance with DIN 1072 standard.

SCHEDULE 8

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories 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 each of the Loans 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 to be withdrawn from the respective Loan Account by each Borrower and deposited in its Special Account pursuant to paragraph 3 (a) of this Schedule as follows:

Montenegrin Borrower	Special Account A	\$900,000 equivalent
Croatian Borrower	Special Account B	\$400,000 equivalent
Macedonian Borrower	Special Account C	\$1,600,000 equivalent
Vojvodinan Borrower	Special Account D	\$2,500,000 equivalent

2. Except as the Bank shall otherwise agree, payments out of each 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 a Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish such Special Account may be made as follows:

(a) On the basis of a request or requests by a Borrower for a deposit or deposits which add up to the aggregate amount of the Authorized Allocation, the Bank shall, on behalf of such Borrower, withdraw from the respective Loan Account and deposit in such Borrower's Special Account such amount or amounts as such Borrower shall have requested.

(b) Each Borrower shall furnish to the Bank requests for replenishment of its Special Account at such intervals as the Bank shall specify. On the basis of such requests, the Bank shall withdraw from the respective Loan Account and deposit into such

Special Account such amounts as shall be required to replenish

such Special Account with amounts not exceeding the amount of payments made out of such Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the respective Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by the evidence supporting the request for such deposit furnished pursuant to paragraph 4 of this Schedule.

4. For each payment made by a Borrower out of its Special Account for which such Borrower requests replenishment pursuant to paragraph 3 (b) of this Schedule, such Borrower shall furnish to the Bank, prior to or at the time of such request, such documents and other evidence as the Bank shall reasonably request, showing that such payment was made for eligible expenditures.

5. (a) Notwithstanding the provisions of paragraph 3 of this Schedule, no further deposit into a Special Account shall be made by the Bank when either of the following situations first arises:

- (i) the Bank shall have determined that all further withdrawals should be made directly by the respective Borrower from the respective Loan Account in accordance with the provisions of paragraph (a) of Section 2.02 of this Agreement; or
- (ii) the total unwithdrawn amount of the respective Loan allocated to the eligible Categories, minus the amount of any special commitment entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall be equal to the equivalent of twice the amount of the Authorized Allocation.

(b) Thereafter, withdrawal from the respective Loan Account of the remaining unwithdrawn amount of the respective Loan allocated to the eligible Categories shall follow such procedures as the Bank shall specify by notice to the respective 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 respective Special Account as of the date of such notice have been or 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 a Special Account (i) was made for any expenditure or in any amount not eligible pursuant to paragraph 2 of this Schedule, or (ii) was not justified by the evidence furnished pursuant to paragraph 4 of this Schedule, the respective Borrower

shall, promptly upon notice from the Bank, deposit into such Borrower's 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. No further deposit by the Bank into such Borrower's Special Account shall be made until such Borrower has made such deposit or refund.

(b) If the Bank shall have determined at any time that any amount outstanding in a Special Account will not be required to cover further payments for eligible expenditures, the respective Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount for crediting to the respective Loan Account.

