

CONFORMED COPY

LOAN NUMBER 4439 MK

Project Agreement

(Transport Sector Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

and

FUND FOR NATIONAL AND REGIONAL ROADS

Dated May 24, 1999

LOAN NUMBER 4439 MK

PROJECT AGREEMENT

AGREEMENT, dated May 24, 1999, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and FUND FOR NATIONAL AND REGIONAL ROADS ("FNRR").

WHEREAS (A) by the Loan Agreement of even date herewith between the Borrower and the Bank, the Bank has agreed to make available to the Borrower an amount equal to twenty seven million Euro (Euro 27,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that FNRR agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and FNRR, a portion of the proceeds of the loan provided for under the Loan Agreement (in an amount equal to seventeen million Euro (Euro 17,000,000)) will be made available to FNRR on the terms and conditions set forth in the FNRR Subsidiary Loan Agreement; and

WHEREAS FNRR, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) FNRR declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Parts A, B, C and D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Parts A, B, C and D of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and FNRR shall otherwise agree, FNRR shall carry out Parts A, B, C and D of the Project in accordance with the Implementation Plan.

Section 2.02. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B, C and D of the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to the Loan Agreement.

Section 2.03. FNRR shall carry out 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 this Agreement and Parts A, B, C and D of the Project.

Section 2.04. FNRR shall duly perform all its obligations under the FNRR Subsidiary Loan Agreement. Except as the Bank shall otherwise agree, FNRR shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the FNRR Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) FNRR shall, at the request of the Bank, exchange views with the Bank with regard to progress of the Project, the performance of its obligations under this Agreement and under the FNRR Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) FNRR shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by FNRR of its obligations under this Agreement and under the FNRR Subsidiary Loan Agreement.

Section 2.06. FNRR shall submit to the Bank by September 15 in each year, commencing September 15, 2000, and until completion of the Project, a road maintenance program for the following year based on the results of the Pavement Management System.

Section 2.07. FNRR shall select road sections for the testing of low maintenance technologies under the Pavement Management System on the basis of economic criteria and a methodology satisfactory to the Bank, including, for each such road section, an expected overall economic rate of return of at least twenty percent (20%).

ARTICLE III

Management and Operations of FNRR

Section 3.01. FNRR shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, technical and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. FNRR shall at all times operate and maintain its plant, 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, technical and environmental practices.

Section 3.03. FNRR 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 IV

Financial Covenants

Section 4.01. (a) FNRR shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures for and in connection with the carrying out of Parts A, B, C and D of the Project.

(b) FNRR shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, 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, (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited and (B) an opinion on such statements and a 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.

Section 4.02. By June 30, 1999, FNRR shall appoint auditors, satisfactory to the Bank, for the purpose of carrying out the audits required under the Project.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of FNRR thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify FNRR thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For FNRR:

Fund for National and Regional Roads
Dame Gruev 14 91000
Skopje

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of FNRR may be taken or executed by the Director or such other person or persons as the Director shall designate in writing, and FNRR shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

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/ Johannes Linn

Regional Vice President
Europe and Central Asia

FUND FOR NATIONAL AND REGIONAL ROADS

By /s/ Ljubica Acevska

Authorized Representative

