

CONFORMED COPY

LOAN NUMBER 3869 HR

Loan Agreement

(Highway Sector Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 27, 1995

LOAN NO. 3869 HR

LOAN AGREEMENT

AGREEMENT, dated April 25, 1995, between REPUBLIC OF CROATIA (the Borrower) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

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

(B) the Borrower intends to contract from European Bank for Reconstruction and Development (EBRD) a loan (the EBRD Loan) in an amount equivalent to \$47,500,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the EBRD Loan Agreement) to be entered into between the Borrower and EBRD; 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) "HC" means Croatian Roads Authority, the agency responsible for construction and maintenance of all public interurban roads and controlled by the Borrower, or any legal successor thereof.
- (b) "HZ" means Croatian Railways, an independent legal entity established pursuant to the Law on Railways No. 53/94, dated July 8, 1994.
- (c) "MMATC" means the Borrower's Ministry of Maritime Affairs, Transport and Communications.
- (d) "PMS" means the Pavement Management System, a system designed to optimize resources for highway maintenance and rehabilitation (including reinforcement) particularly of pavements, and to generate the corresponding budgets and work programs.
- (e) "Road Expenditure Program" means a three-year (1995-1997) program for road works in Croatia approved by the Borrower on December 20, 1994, as it may be changed from time to time.
- (f) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Loan Agreement, various currencies that shall have an aggregate value equivalent to the amount of eighty million dollars (\$80,000,000), 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 may, for the purposes of the Project, open and maintain in US 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 6 to this Agreement.

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

Section 2.04. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one per cent (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 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 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 June 15 and December 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. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Part A, C and D of the Project through HC and Parts B, E and F through MMATC, with due diligence and efficiency and in conformity with appropriate engineering, financial and administrative practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, 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 3.03. Without limitation upon the provisions of Article IX of the General Conditions, the Borrower shall:

(a) prepare and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan, of such scope and in such detail as the Bank shall reasonably request, for the future operation of the Project;

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan; and

(c) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Bank's comments thereon.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account 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 representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. Not later than October 31 of each year during execution of the Project, the Borrower shall:

- (a) furnish to the Bank a report on the progress achieved in carrying out the Road Expenditure Program (hereinafter in this Section referred to as "Program") for the preceding year and proposed revisions thereof for the next calendar year;
- (b) afford the Bank a reasonable opportunity to comment on the proposals and thereafter introduce any revisions so that the Program is satisfactory to the Bank.

Section 4.03. Not later than October 31 of each year during execution of the Project, the Borrower shall carry out feasibility studies of roadwork investments to be financed under the Project in accordance with methods of economic analysis satisfactory to the Bank.

Section 4.04. The Borrower shall not undertake any roadwork investments estimated to cost the equivalent of \$5,000,000 or more during the execution of the Project, unless the economic rate of return for such investment estimated on the basis of an economic analysis carried out in accordance with a methodology satisfactory to the Bank, is greater than 12%.

Section 4.05. The Borrower shall cause HC to submit to the Bank, not later than March 1 of each year during execution of the Project, HC's investment program, after being approved by the Borrower, for the following calendar year which shall reflect the allocated budgetary resources required for implementation of such program.

Section 4.06. Except as the Bank shall otherwise agree, the Borrower shall: (a) ensure that the maximum level of the Borrower's contributions to HZ shall not exceed the equivalent of: (i) \$105,000,000 plus debt service in 1995; (ii) \$90,000,000 plus debt service in 1996; and \$75,000,000 plus debt service in 1997.

For the purposes of this paragraph:

- (1) The term "debt service" means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt;
- (2) The term "debt" means any indebtedness of HZ maturing by its terms more than one year after the date on which it is originally incurred.

(b) cause HZ to maintain the level of payables, in real terms, including debts to the social welfare funds and suppliers, at the level not greater than as of June 30, 1994.

Section 4.07. The Borrower shall cause HZ to furnish to the Bank its financial statements as soon as available, but in any case not later than three months after the end of each Semester.

For the purpose of this Section, "Semester" means the first six months or the second six months of a calendar year.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely that:

(a) The EBRD loan shall have failed to become effective by June 1, 1995, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(b) (1) Subject to paragraph (b) (2) of this Section:

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

(2) Paragraph (b) (1) of this Section shall not apply if the Borrower establishes to the satisfaction of the Bank that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii)

adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (a) (ii) of this Agreement shall occur, subject to the proviso of Section 5.01 (b) of this Agreement.

ARTICLE VI

Termination

Section 6.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Katanbipeva 5
41000 Zagreb, Croatia

Telex:

862-21215
862-21833

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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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

REPUBLIC OF CROATIA

By /s/ Bozo Prka

Authorized Representative

INTERNATIONAL BANK FOR

RECONSTRUCTION AND DEVELOPMENT

By /s/ Wilfried Thalwitz

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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

	Category	Amount of the Loan Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1)	Civil works	47,100,000	60%
(2)	Goods	24,500,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 60% of local expenditures for other items procured locally
(3)	Consultants' services and training	3,000,000	100%
(4)	Unallocated	5,400,000	
	TOTAL	<u>80,000,000</u>	

2. For the purposes of this Schedule:

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

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

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 to exceed \$8,000,000, may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures before that date but after December 31, 1994.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for works under contracts not exceeding \$1,500,000 equivalent, and for goods under contracts not exceeding \$300,000 equivalent, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to support and expedite the modernization and transformation of the transport sector with special emphasis on the main road network and the administration responsible for it, HC.

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: Road Expenditure Program

Carrying out of a three-year (1995-1997) program under the Road Expenditure Program including road construction, pavement strengthening, rehabilitation and resurfacing, installation of the PMS and provision of highway maintenance equipment, on the road sections selected in accordance with the criteria acceptable to the Bank.

Part B: Technical Assistance to HZ

Carrying out of a review of all aspects of HZ operations with a view to provide recommendations for improvement thereof.

Part C: Technical Assistance to HC

Provision of consultants' services and training to HC technical personnel in modernizing road maintenance techniques, including pavement and bridge management systems.

Part D: Implementation of PMS

Provision of equipment, technical assistance and training required for installation of the PMS.

Part E: Rijeka Port Study

Carrying out a study to draw up a master plan and associated investment plan, and to propose an administrative/managerial structure for Rijeka port.

Part F: Road Safety Study

Carrying out a study to review an existing road safety plan and to prepare recommendations for improvement thereof.

* * *

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

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in dollars)*
December 15, 1999	1,925,000
June 15, 2000	1,995,000
December 15, 2000	2,065,000
June 15, 2001	2,135,000
December 15, 2001	2,210,000
June 15, 2002	2,290,000
December 15, 2002	2,370,000

June 15, 2003	2,455,000
December 15, 2003	2,545,000
June 15, 2004	2,635,000
December 15, 2004	2,725,000
June 15, 2005	2,825,000
December 15, 2005	2,925,000
June 15, 2006	3,025,000
December 15, 2006	3,135,000
June 15, 2007	3,245,000
December 15, 2007	3,360,000
June 15, 2008	3,480,000
December 15, 2008	3,605,000
June 15, 2009	3,730,000
December 15, 2009	3,860,000
June 15, 2010	4,000,000
December 15, 2010	4,140,000
June 15, 2011	4,290,000
December 15, 2011	4,440,000
June 15, 2012	4,590,000

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

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	0.18
More than three years but not more than six years before maturity	0.35
More than six years but not more than 11 years before maturity	0.65
More than 11 years but not more than 15 years before maturity	0.88
More than 15 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 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the bid evaluation. With respect to each contract made subject to the Bank's prior review in accordance with the provisions of Part D. 2 (a) of this Section, the Bank's prior approval will be required for: (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days; and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Bank shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Bank.

2. Contracts for works which include individual sections estimated to cost the equivalent of \$1,000,000 or more per contract shall be awarded under procedures set forth in this Part A.

3. Bidders for works packages shall be prequalified as provided in paragraph 2.10 of the Guidelines.

4. To the extent practicable, contracts for goods and works shall be grouped into bid packages estimated to cost the equivalent of \$2,000,000 or more for works, and the equivalent of \$300,000 or more for goods.

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 the Republic of Croatia 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. Items or groups of items for goods which the Bank agrees of specialized nature and for which there is limited number of suppliers, up to an aggregate amount equivalent to \$2,000,000 may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids obtained from qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof).

2. Civil works estimated to cost the equivalent of \$2,000,000 or less per contract, up to an aggregate amount equivalent to \$40,000,000 may be procured under contracts awarded on the

basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Bank.

3. Spare parts for equipment which the Bank agrees need to be compatible with other installed equipment, up to an aggregate amount equivalent to \$35,000, may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Bank.

Part D: 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 for goods and each contract for works awarded under procedures set forth in Parts A.1 and C, 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 6 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals are to be made on the basis of statements of expenditure.

3. 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 the carrying out of the Project, the Borrower shall employ 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Bank. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Bank.

SCHEDULE 5

Implementation Program

1. During execution of the Project, the Borrower shall ensure

that the road vehicle fuel tax shall be maintained at least at the June 1994 level in real terms.

2. The Borrower shall cause HC to submit for the Bank's review, not later than July 1, 1995 an action plan which shall cover reorganization and improvement of its maintenance operations, including the transfer of road construction activities to independent construction companies.

3. Upon carrying out the studies referred to in Parts B, E and F of the Project, but in any case not later than December 31, 1995 for Part F and June 30, 1996 for Parts B and E, the Borrower shall review with the Bank the conclusions and recommendations of said studies and prepare implementation plans for each one of them, taking into consideration the Bank's comments thereon.

4. The Borrower shall take all necessary measures to cause (a) the lead contents of gasoline to be reduced to no more than 0.4% by weight by not later than June 30, 1996; and (b) unleaded gasoline to continue to be widely available at a price equal to or less than leaded gasoline.

5. The Borrower shall cause HC to make PMS fully operational no later than September 30, 1997, and to ensure that, starting January 1, 1998, the HC's budget for highway rehabilitation and resurfacing and routine maintenance shall be prepared and monitored through the systematic use of PMS.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) 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 \$5,000,000 to be withdrawn from the Loan Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 until the aggregate amount of withdrawals from the Loan Account plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$10,000,000.

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) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of the records and accounts for the Special Account; or

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

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories, 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.

