

LOAN NUMBER 3069 YU

Loan Agreement

(Istria Water Supply and Sewerage Project)

among

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT
and

RADNA ORGANIZACIJA "ISTARSKI VODOVOD" BUZET
(ISTRIAN WATER WORKS)
and

RADNA ORGANIZACIJA "VODOVOD" PULA
(PULA WATER WORKS)

Dated February 1, 1990

LOAN NUMBER 3069 YU

LOAN AGREEMENT

AGREEMENT, dated February 1, 1990 among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and RADNA ORGANIZACIJA "ISTARSKI VODOVOD" BUZET (ISTRIAN WATER WORKS) and RADNA ORGANIZACIJA "VODOVOD" PULA (PULA WATER WORKS) (the Borrowers).

WHEREAS (A) The Socialist Federal Republic of Yugoslavia (the Guarantor) and the Borrowers, 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) Parts A, B and C of the Project will be carried out by the Borrowers through Radna Organizacija "Vodopskrbni Sistem Istre-Vodovod Butoniga" U Osnivanju-Buzet (Butoniga Water Works);

(C) Part D of the Project will be carried out by Komunalna radna organizacija "PUT" - OOUR Kanalizacija Pula (Work Organization for Public Utility Services "PUT" - BOAL "Sewerage" Pula); Radna organizacija Komunalnih djelatnosti "Usluga" Porec (Work Organization for Public Utility Services "USLUGA", Porec); Samoupravna interesna zajednica u stambeno komunalnoj oblasti općine Buzet (Self-managing Community of Interest for Housing and Public Utility Services of the Community of Buzet); Samoupravna interesna zajednica u stambeno komunalnoj oblasti općine Rovinj (Self-managing Community of Interest for Housing and Public Utility Services of the Community of Rovinj); Samoupravna interesna zajednica u stambeno komunalnoj djelatnosti napodručju općine Buje (Self-managing Community of Interest for Housing and Public Utility Services for the Territory of the Community of Buje); and Samoupravna vodoprivredna interesna zajednica za vodno područje Primorsko - Istarskih slivova Rijeka (Self-managing Community of Interest for Water Management for the Catchment Area of Primorje and Istria) pursuant to agreements to be entered into among the Borrowers and such entities;

(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 Borrowers in respect of the Loan 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 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 last sentence of Section 3.02 deleted (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) "Project Area" means the area serviced by the Borrowers;

(b) "Borrowers' Statutes" means the self-management agreement, dated December 28, 1977, and statutes, dated April 9, 1979, of Istrian Water Works, pursuant to which Istrian Water Works has been established and is operating, as the same may be amended from time to time, and the self-management agreement and statutes, dated December 5, 1978, of Pula Water Works, pursuant to which Pula Water Works has been established and is operating, as the same may be amended from time to time;

(c) "Butoniga Water Works' Self-management Agreement" means the self-management agreement, dated December 18, 1985, of Butoniga Water Works, pursuant to which Butoniga Water Works has been established and is operating, as the same may be amended from time to time;

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

(e) "fiscal year" means the fiscal year of each of the Borrowers, namely, the period from January 1 through December 31.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrowers 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 twenty-eight million dollars (\$28,000,000), 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 and in respect of interest and other charges on the Loan.

(b) The Borrowers shall, for the purposes of Parts A (2), B, and C (1), (2), (3), (5) and (6) 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, 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 Borrowers, 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 Borrowers and the Bank.

Section 2.03. The Closing Date shall be December 31, 1995 or such later date as the Bank shall establish. The Bank shall promptly notify the Borrowers of such later date.

Section 2.04. The Borrowers 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 Borrowers shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate per annum for each Interest Period equal to one-half of one percent 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 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 April 15 and October 15 in each year.

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

Section 2.08. All obligations of the Borrowers under this Agreement, unless such obligations shall have been expressly undertaken by each of the Borrowers separately, shall be joint and several. The obligations of either of the Borrowers to comply with any provision of this Agreement is not subject to any prior notice to, demand upon or action against either of them in respect of the performance of any of its obligations under the Loan Agreement. No failure of the Bank to give any notice or to make any demand or protest whatsoever to either of the Borrowers, or strictly to assert any right or pursue any remedy against either of them in respect of the Loan Agreement, and no failure by either of the Borrowers to comply with any requirement of any law, regulation or order, shall in any way affect or impair any obligation of the Borrowers under the Loan Agreement.

Section 2.09. Butoniga Water Works is designated as representative of the Borrowers for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrowers declare their commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out Parts A, B and C of the Project, through Butoniga Water Works, 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.

(b) The Borrowers shall enter into an agreement, on terms and conditions satisfactory to the Bank, with each entity referred to in Recital C of this Agreement pursuant to which each such entity shall carry out its respective part of Part D of the Project.

Section 3.02. The Borrowers shall, through Butoniga Water Works:

(a) not later than December 31, 1992, carry out, on the basis of terms of reference satisfactory to the Bank, the study under Part C (2) of the Project on the management of water supplies in the Project Area, including the Butoniga supply and transmission system;

(b) not later than March 31, 1993, consult with the Bank on the findings and recommendations of such study; and

(c) promptly thereafter, take all measures necessary to obtain the approval of the agreed recommendations of such study by the appropriate authorities.

Section 3.03. Except as the Bank shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A, B and C of 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.

ARTICLE IV

Management and Operations of the Borrowers

Section 4.01. Each 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. Each 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 and financial practices.

Section 4.03. Each 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 and Other Covenants

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

(b) Each 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 the Social Accounting Service or another competent and experienced independent auditing organization acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than nine 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, each 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 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 5.02. Without limitation upon the provisions of Section 5.01 of this Agreement, each Borrower shall, not later than March 15 and September 15 of each year, furnish a report to the Bank prepared in a format satisfactory to the Bank, on the financial performance of the Borrower during the previous calendar semester.

Section 5.03. Each Borrower shall:

(a) not later than December 31, 1992, carry out, on the basis of terms of reference satisfactory to the Bank, a study on its tariff structure;

(b) not later than March 31, 1993, consult with the Bank on the findings and recommendations of such study; and

(c) promptly thereafter, take all measures necessary to obtain approval of the agreed recommendations of such study and put into effect a revised tariff structure.

Section 5.04. (a) Except as the Bank shall otherwise agree, each Borrower shall maintain, for each of its fiscal years after its fiscal year ending in 1988, a ratio of total operating expenses to total operating revenues not higher than eighty percent (80%).

(b) Before March 15 in each of its fiscal years, each Borrower shall, on the basis of forecasts prepared by each Borrower and satisfactory to the Bank, ascertain 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 requirements set forth in paragraph (a) for 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 tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "total operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, and provision for depreciation on a straight-line basis at a rate of not less than 2 5% per annum of the average current gross value of the Borrower's fixed assets in operation, or other basis acceptable to the Bank, but excluding

interest and other charges on debt.

- (ii) The term "total operating revenues" means revenues from all sources related to operations.
- (iii) 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.

Section 5.05. Except as the Bank shall otherwise agree:

(a) Istrian Water Works shall exclude from its investment program for any fiscal year capital expenditures (excluding expenditures for the Project) that would cause its average annual expenditures from 1989 to the fiscal year in question to exceed the equivalent of \$2,500,000; and

(b) Pula Water Works shall exclude from its investment program for any fiscal year capital expenditures (excluding expenditures for the Project) that would cause its average annual expenditures from 1989 to the fiscal year in question to exceed the equivalent of \$2,000,000.

Section 5.06. Pula Water Works shall, not later than December 31, 1994, carry out an action plan, on the basis of a format and schedule satisfactory to the Bank, to reduce the level of unaccounted-for water.

Section 5.07. Without limitation upon the provisions of Section 9.07 of the General Conditions, the Borrowers shall, in conjunction with Butoniga Water Works, not later than March 15 and September 15 of each year, furnish to the Bank a report, prepared in a manner satisfactory to the Bank, on progress in implementation of the Project during the preceding calendar semester.

ARTICLE VI

Remedies of the Bank

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

(a) Any of the entities referred to in Recital C to this Agreement shall have failed to perform any of its obligations under the agreements referred to in Section 3.01 (b) of this Agreement.

(b) The Borrowers' Statutes, Butoniga Water Works' Self-management Agreement and any law of the Guarantor pertaining to the operations of the Borrowers or Butoniga Water Works shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of either Borrower or Butoniga Water Works or the ability of either Borrower to perform any of its obligations under this Agreement.

(c) The Guarantor or any other authority having jurisdiction shall have taken any action for the

dissolution or disestablishment of either Borrower or Butoniga Water Works or for the suspension of its operations.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely that the events specified in paragraphs (b) and (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely that the agreements referred to in Section 3.01 (b) of this Agreement have been executed on behalf of the Borrowers and the entities referred to in Recital C of this Agreement.

Section 7.02. The following is specified as an additional matter, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank, namely that the agreements referred to in Section 7.01 of this Agreement have been duly authorized or ratified by the Borrowers and the entities referred to in Recital C of this Agreement and are legally binding upon the Borrowers and such entities in accordance with their terms.

Section 7.03. 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 Borrowers; Addresses

Section 8.01. The General Manager of Butoniga Water Works is designated as representative of the Borrowers 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:

INTBAFRAD
Washington, D.C.

Telex:

440098 (ITT),
248423 (RCA) or
64145 (WUI)

For the Borrowers:

Radna organizacija
"Istarski Vodovod"
Sveti Ivan 8
51420 Buzet
Yugoslavia

Telex:

25198

Radna organizacija "Vodovod"
Omladinska 9
52000 Pula
Yugoslavia

Telex:

25393

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/ E. Lari

Acting Regional Vice President
Europe, Middle East and North Africa

RADNA ORGANIZACIJA "ISTARSKI VODOVOD" BUZET
(ISTRIAN WATER WORKS)

By /s/ J. Kulisic

Authorized Representative

RADNA ORGANIZACIJA "VODOVOD" PULA
(PULA WATER WORKS)

By /s/ J. Kulisic

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) Works (except for Parts A (1), C (4) and D of the Project)	8,000,000	100% of foreign expenditures and 30% of local expenditures
(2) Goods (except for Parts A (1), C (4) and D of the Project)	12,000,000	100% of foreign expenditures, 100% of local expenditures

		(ex-factory cost) and 85% of local expenditures for other items procured locally	
(3)	Consultants' services, training and Project-related foreign travel (except for Parts A (1), C (4) and D of the Project)	2,000,000	100% of foreign expenditures and 50% of local expenditures
(4)	Interest and other charges on the Loan accrued on or before December 31, 1995	3,900,000	Amount due
(5)	Unallocated	2,100,000	
	TOTAL	28,000,000	

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;

(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; provided, however, that if the currency of the Guarantor is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Project-related foreign travel" means travel undertaken by the staff of the Borrowers to visit works of a similar nature to the Project and inspect equipment for the Project during manufacture.

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 \$1,000,000 may be made in respect of Categories (1), (2) and (3) on account of payments made for expenditures for Parts B (1) and (3) of the Project Before that date but after June 1, 1988.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to eliminate existing water shortages in the Project Area; (b) to provide additional water supply capacity needed for expansion of the tourism industry and growth in domestic and industrial/commercial demand in the Project Area; (c) to reduce unaccounted-for water in the Pula Water Works distribution network; (d) to protect existing water sources and coastal tourist areas from pollution; and (e) to increase efficiency in the delivery of water supply and sewerage services in the Project Area.

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: Water Supply and Treatment

- (1) Creation of a sanitary protection zone for the Butoniga Reservoir.
- (2) Construction of the Butoniga water treatment plant with a capacity of about 1,000 l/sec, expandable in the future to about 2,000 l/sec, including a raw water pumping station and a treated water pumping station.

Part B: Transmission and Storage

- (1) Construction of a raw water and treated water pipeline from the Butoniga reservoir to the Butoniga treatment plant and from the Butoniga treatment plant to Beram.
- (2) Construction of a treated water pipeline from Beram to Laborika with branching trunk mains connecting the community centers of Rovinj, Pazin and Pula and construction of the Pazin Pumping Station.
- (3) Construction of distribution storage totalling about 19,000 m³.
- (4) Provision and installation of telemetering and controls for system operation.

Part C: Training, Studies and Equipment

- (1) Provision of technical assistance for the reduction of unaccounted-for water.
- (2) Carrying out of a study of the feasibility of combining Istria Water Works and Pula Water Works and the operation of the Butoniga water supply system.
- (3) Carrying out of studies of the tariff structures of the Borrowers.
- (4) Carrying out of a master plan sewerage study for the Project Area.
- (5) Provision of equipment for the implementation, operation and maintenance of the Butoniga water supply system.
- (6) Provision of training courses and materials for the training of the staffs of the Borrowers and the Butoniga Water Works.

Part D: Sewerage

- (1) In the Community of Pula, construction of: (a) the Valbandor sewerage system consisting of the Valbandor-Fazana collector, the Valbandor sewerage network, and two pumping stations; (b) the Verudele/Pjescana uvala sewerage system and the Pula town interceptor connecting the Trafo stancia pumping station; (c) completion of the Banjole sewerage system; and (d) the Medulin sewerage system consisting of a sea outfall, a sewage treatment plant, sewers and pumping stations.
- (2) In the Community of Rovinj, construction of: (a) the

Rovinj center interceptor, including three pumping stations (Skver, Valdibora and Kino) and a forcemain; and (b) the Polari pumping station and the Polari-Kuvi collector.

(3) In the Community of Porec, construction of an interceptor and pumping stations connecting the existing sewage treatment plants at Cervar, Lanterna and Ulika with the existing sewage treatment plant at Materada and the extension of the Materada sea outfall.

(4) In the Community of Buje, construction of: (a) a secondary treatment plant for the old town of Buje to serve an equivalent population of about 7,000; (b) a preliminary sewage treatment plant and sea outfall for the old town of Novigrad to serve an equivalent population of about 10,000; (c) a preliminary sewage treatment plant and the extension of an outfall for Savudrija to serve an equivalent population of about 15,000.

(5) In the Community of Buzet, construction of sewerage networks in the Buzet center to extend service to the existing unserved population.

(6) In the Community of Pazin, construction of a sewage treatment and disposal system for the old town of Pazin and nearby industries.

The Project is expected to be completed by December 31, 1994.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in dollars)*
On each April 15 and October 15	
beginning October 15, 1994 through April 15, 2004	1,400,000

* The figure in this column represents 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 on 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 eleven years before maturity	0.73
More than eleven years but not more than thirteen years before maturity	0.87
More than thirteen 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 Borrowers shall facilitate the registration.

3. Each contract for goods and works shall include a provision that the Borrowers 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 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. Goods estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$2,000,000, may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers from at least two different countries eligible under the Guidelines, in accordance with procedures acceptable to the Bank.

2. Works estimated to cost less than the equivalent of \$1,500,000 per contract, up to an aggregate amount not to exceed the equivalent of \$10,000,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory 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 for goods estimated to cost the equivalent of \$200,000 or more, and for works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments of 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, such procedures shall be modified to ensure that a conformed copy 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 4 to the Loan 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 Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 5.01 (c) of the Loan Agreement.

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 Borrowers in the carrying out of Parts A, B and C of the Project, the Borrowers 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.

SCHEDULE 5

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 Parts A (2), B and C (1), (2), (3) (5) and (6) of 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 \$3,000,000 to be withdrawn from the Loan Account and deposited into 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 Borrowers 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 Borrowers, withdraw from the Loan Account and deposit in the Special Account such amount or amounts as the Borrowers shall have requested.

(b) (i) For replenishment of the Special Account, the Borrowers 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 Borrowers 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 Borrowers, withdraw from the Loan Account and deposit into the Special Account such amount as the Borrowers shall have requested and as shall have been shown by said documents and other evidence to have been made 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 Borrowers out of the Special Account, the Borrowers 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 Borrowers 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 for Parts A (2), B and C (1), (2), (3), (5) and (6) of the Project, 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 Parts A (2), B and C (1), (2), (3), (5) and (6) of 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 for Parts A (2), B and C (1), (2), (3), (5) and (6) of the Project shall follow such procedures as the Bank shall specify by notice to the Borrowers. 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 Borrowers 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 Borrowers have 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 Borrowers shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrowers 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.

