

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8749-HR

Loan Agreement

(Modernization and Restructuring of the Road Sector Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *May 8*, 2017

LOAN AGREEMENT

AGREEMENT dated *May 8*, 201~~7~~, between REPUBLIC OF CROATIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty two million Euro (€ 22,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount. The Borrower shall pay the Front-end Fee not later than sixty days after the Effective Date.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed Spread; provided, however, that the interest payable shall in no event be less than zero percent (0%) per annum; and provided furthermore that, upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of

thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (e) of the General Conditions.

- 2.06. The Payment Dates are May 15 and November 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule and provisions set forth in Schedule 3 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; and (ii) a change of the interest rate basis applicable to: (A) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; or (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out Parts A and B(a) of the Project through its Ministry of Sea, Transport and Infrastructure, and shall cause Parts B(b) of the Project to be carried out by HC and HAC, Parts B(c) and B(d) of the Project to be carried out by HAC and ARZ, Part B(e) of the Project to be carried out by HC and Part B(f) of the Project to be carried out by HAC, each in accordance with the provisions of Article V of the General Conditions and the Subsidiary Agreement or Inter-Institutional Agreements, as relevant.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall

ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that any of the HC Legislation, HAC Legislation or ARZ Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of any of HC, HAC or ARZ to perform any of their obligations under the respective Subsidiary Agreement or Inter-Institutional Agreement, as relevant.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement and inter-Institutional Agreements have been executed on behalf of the Borrower and each of HC, HAC and ARZ, as relevant.
 - (b) The Project Implementation Manual shall have been adopted by the Borrower, through MSTI, in a manner satisfactory to the Bank.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement and Inter-Institutional Agreements have been duly authorized or ratified by the Borrower, MSTI, and each of HC, HAC and ARZ (as relevant) and are legally binding upon the Borrower, MSTI each of HC, HAC and ARZ (as relevant) in accordance with their terms.
- 5.03. The Effectiveness Deadline is the date one hundred and eighty (180) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is its minister in charge of finance or any successor thereto.
- 6.02. The Borrower's Address is:

Ministry of Finance
Katanciceva 5

10000 Zagreb
Republic of Croatia

Facsimile:
+385 1 4591416

6.03. The Bank's Address is:

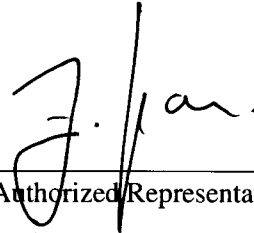
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at Zagreb, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By



Authorized Representative

Name: Zdravko Marić

Title: Minister of Finance

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By



Authorized Representative

Name: Arup Banerji

Title: Country Director

SCHEDULE 1

Project Description

The objective of the Project is to strengthen institutional effectiveness, enhance operational efficiency and increase debt service capacity of the Borrower's road sector.

The Project consists of the following parts:

Part A: Institutional Strengthening and Sector Reforms

The objective of this component is to establish an institutional framework for the road sector, including through:

(a) Financial Transaction Advisor

Hiring of a financial transaction advisor who shall, *inter alia*: (a) prepare a debt optimization strategy for the Road Sector Companies; (b) analyze debt facilities for rescheduling and refinancing; (c) propose the type and sequencing of the refinancing instrument; and (d) develop and implement the engagement strategy for communication, negotiation and conclusion of the arrangements with the capital market.

(b) Transport Sector Planning and Road Sector Governance and Monitoring

- (i) Development of a directorate in the MSTI to coordinate strategic planning and public investment management.
- (ii) Development of a sector governance framework including definition of KPIs and monitoring arrangements.
- (iii) Establishment of an application for data exchange and reporting between MSTI and the Road Sector Companies.
- (iv) Improvement and standardization of accounting practices across the Road Sector Companies.
- (v) Improvement of the business environment for the freight transport industry through review of administrative processes applied to the road transport sector.
- (vi) Introduction and improvement of citizen engagement through consultation processes.

(c) Implementation support

Provision of support to MSTI in managing and coordinating the Project and building its procurement, financial management, safeguards management, monitoring and evaluation capacity, dealing with legal, public relations, communication and human resources matters through the provision of technical advisory services, Training, as well as Project audits.

Part B: Operational Restructuring of Road Sector Companies

The objective of this component is to implement management tools and carry out the revenue enhancement and cost rationalization actions required to improve operational and financial sustainability of the Road Sector Companies, including through:

(a) Road classification and standards

Provision of support to MSTI and the Road Sector Companies to: (i) implement a technical classification of the public road network; and (ii) develop consistent sets of maintenance-related regulations and specifications for all classes of roads.

(b) Road Asset Management System

- (i) Design and implementation of a road asset management system (RAMS) for all Road Sector Companies to comprise a computerized database with inventory, condition and traffic data.
- (ii) Development of a multi-year costed road maintenance program by each Road Sector Company.

(c) Rationalization of Operations and Business Functions – Motorways

- (i) Development of action plans and their implementation to improve technical and business efficiency and effectiveness through optimization of management and roads' operations and maintenance costs, outsourcing enhancement and rationalization of technical units, administrative activities and revenue improvements.
- (ii) Provision of staff retrenchment packages to include support for retraining, counselling, advisory services and employment intermediation.

(d) Tolling

Carrying out of studies to identify the preferred automated tolling system and new tariff structure, including plans to transition from the current system and pricing regime.

(e) Operational and business rationalization of HC

Development of an action plan to support the: (i) restructuring and transition of HC to a regional management system based on six regions; (ii) carrying out of joint procurement at regional level among HC and ZUC; (iii) development of improved maintenance contracting practices; and (iv) assessment and programming of periodic maintenance based on the RAMS.

(f) Road Safety

Carrying out of technical studies for purpose of increasing road safety on the motorway system including tunnels and traffic information.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Project Steering Committee

The Borrower, through MSTI, shall maintain at all times during the implementation of the Project, the Project Steering Committee (PSC) chaired by the Minister of MSTI with composition, mandate and resources satisfactory to the Bank, for the purpose of guidance and monitoring of all technical and financial aspects of the sector reform and debt refinancing, while ensuring Project oversight and timely decision making, including being responsible for strategic guidance of Project implementation and coordination of the Project-led initiatives and reforms.

B. Project Implementation Unit

The Borrower, shall ensure that the Project Implementation Unit (PIU), established within MSTI, is maintained at all times during the implementation of the Project, with composition, mandate and resources satisfactory to the Bank, for the purpose of ensuring prompt and efficient overall coordination, implementation and communication of Project activities, including being responsible for: (i) technical investments, retrenchment and human resources aspects; (ii) financial management and procurement; (iii) ensuring compliance with environmental and social safeguards; (iv) preparing and circulating progress reports every semester; and (v) monitoring and evaluation of Project activities. The PIU shall report to the Minister of MSTI and the PSC.

C. Subsidiary Agreement and Inter-Institutional Agreements

- (a) To facilitate the carrying out of Parts B(b), (c), (d) and (f) of the Project, the Borrower, through MOF, shall make part of the proceeds of the Loan available to HAC under a subsidiary agreement between the Borrower, through MOF and MSTI, and HAC (the Subsidiary Agreement), under terms and conditions approved by the Bank, whereby, *inter alia*: (i) the Borrower, through MOF and MSTI, agrees to make available to HAC, on a grant basis and free of any charges, part of the proceeds of the Loan to finance HAC's activities described under Part B(c)(ii) of the Project; (ii) HAC agrees to cooperate with the Borrower in the carrying out of the activities under Part B (b), (c), (d) and (f) of the Project, including by exchanging information, holding reviews and providing reports on the progress of activities under its responsibility in accordance with the terms and conditions set forth in this Agreement, as well as by complying with the Anti-Corruption Guidelines, Project Implementation Manual and World Bank's Safeguard Policies; and (iii) the Borrower, through MOF

and MSTI, agrees to take all action necessary to permit HAC to implement Parts B (b), (c), (d) and (f) of the Project.

- (b) The Borrower, through MOF and MSTI, shall exercise its rights and carry out its obligations under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.
- (c) To facilitate the carrying out of: (i) Parts B(b) and B (e) of the Project, the Borrower, through MSTI, shall enter into an inter-institutional agreement with HC (the Inter-Institutional Agreement/HC), under terms and conditions approved by the Bank, whereby, *inter alia*: (1) HC agrees to cooperate with MSTI in the carrying out of the activities under Parts B(b) and B(e) of the Project, including by exchanging information, holding reviews and providing reports on the progress of activities under its responsibility in accordance with the terms and conditions set forth in this Agreement, as well as by complying with the Project Implementation Manual, the Anti-Corruption Guidelines and the World Bank's Safeguards Policies; and (2) the Borrower agrees to take all action necessary to permit HC to implement Part B(b) and B(e) of the Project; and (ii) Parts B (c) and B (d) of the Project, the Borrower, through MSTI, shall enter into an inter-institutional agreement with ARZ (the Inter-Institutional Agreement/ARZ), under terms and conditions approved by the Bank, whereby, *inter alia*: (1) ARZ agrees to cooperate with MSTI in the carrying out of the activities under Parts B(c) and B(d) of the Project, including by exchanging information, holding reviews and providing reports on the progress of activities under its responsibility in accordance with the terms and conditions set forth in this Agreement, as well as by complying with the Project Implementation Manual, the Anti-Corruption Guidelines and World Bank's Safeguards Policies.
- (d) The Borrower, through MSTI, shall exercise its rights and carry out its obligations under each of the Inter-Institutional Agreements in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Inter-Institutional Agreements or any of their provisions.

D. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Project Implementation Manual

1. The Borrower, through MSTI, shall carry out the Project in accordance with a project implementation manual in form and substance satisfactory to the Bank, providing details of arrangements and procedures for the implementation of the Project, including: (a) capacity building activities for sustained achievement of the Project's objective; (b) disbursement and financial management; (c) institutional administration, coordination and day-to-day execution of Project activities; (d) monitoring, evaluation, reporting (including mechanisms and formats for the preparation of Annual Work Plans and Budgets), information and communication; (e) procurement; and (f) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project; provided, however, that in case of any conflict between the provisions of the Project Implementation Manual and those of this Agreement, this Agreement shall prevail.
2. Except as the Bank shall otherwise agree, the Borrower, through MSTI, shall not amend, abrogate or waive any provision of the Project Implementation Manual if, in the opinion of the Bank, such amendment or waiver may materially and adversely affect the implementation of the Project.

F. Annual Work Plan and Budget

1. The Borrower, through MSTI, shall cause the Road Sector Companies to prepare and furnish to the Bank for review and approval, not later than one (1) month prior to the start of each fiscal year of the Borrower during the implementation of the Project, a proposed annual work plan and budget covering all activities proposed to be carried out under the Project in the forthcoming fiscal year.
2. Each such proposed annual work plan and budget shall specify among the activities, any training activities that may be required under the Project, including: (a) the type of training; (b) the purpose of the training; (c) the personnel to be trained; (d) the institution or individual who will conduct the training; (e) the location and duration of the training; (f) the cost of the training; and (g) the expected outcome and impact of the training.
3. The Borrower, through MSTI, shall cause the Road Sector Companies to afford the Bank a reasonable opportunity to exchange views with the Borrower on each such proposed annual work plan and budget, and thereafter to implement the Project or cause it to be implemented with due diligence in accordance with such annual work plan and budget as shall have been approved by the Bank.

G. Safeguards Instruments

1. The Borrower, through MSTI, shall cause each of the Road Sector Companies to ensure that an ESMS acceptable to the Bank is in place and operated in a manner acceptable to the Bank throughout Project implementation.
2. The Borrower, through MSTI, shall cause the Road Sector Companies to, not later than twelve (12) months after the Effective Date, carry out an ESCR under terms of reference satisfactory to the Bank, and on the basis of said ESCR, cause the Road Sector Companies to: (i) prepare and disclose an action plan that, *inter alia*, identifies actions, agreed with the Bank, as may be necessary for the environmentally and socially sustainable management of the Borrower's road sector; and (ii) adopt such action plan not later than three months after the completion of the ESCR.
3. The Borrower, through MSTI, shall ensure that the Project Reports referred to in Part A of Section II of this Schedule include adequate information on the status of compliance with the provisions of this paragraph, including information on the status of preparation and implementation of the instruments referred to in paragraphs 1 and 2 herein.
4. For purposes of Part B (c)(ii) of the Project, the Borrower, through MSTI shall cause the Road Sector Companies to: (i) prepare Retrenchment Plans under terms of reference satisfactory to the Bank and on the basis of the Retrenchment Framework; (ii) adopt such Retrenchment Plans before any retrenchment is carried out under the Project; and (iii) ensure that any retrenchment of the Road Sector Companies' staff is carried out according to such Retrenchment Plans, in a manner satisfactory to the Bank.
5. The Borrower, through MSTI, shall ensure that all terms of reference for any technical assistance, studies, and analytical work under the Project are consistent with the Bank's environmental and social safeguards.
6. The Borrower, through MSTI, shall cause the Road Sector Companies to maintain a grievance redress mechanism for the Project, with adequate staffing and processes acceptable to the Bank, to address any grievances associated with potential retrenchment under the Project.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through MSTI, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators acceptable to the Bank. Each Project Report shall cover the period of one (1) calendar semester,

and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through MSTI, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through MSTI, shall prepare and furnish to the Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar semester, interim unaudited financial reports for the Project covering the semester, in form and substance satisfactory to the Bank.
3. The Borrower, through MSTI, shall have the Project's Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal was made under the Project. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.
4. The Borrower, through MSTI, shall cause each of the Road Sector Companies to have their respective financial statements and their consolidated HAC group financial statements, as applicable, audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Borrower, commencing with the fiscal year in which the first withdrawal is made under the Project.
5. The Borrower, through MSTI, shall cause each of the Road Sector Companies to furnish their respective audited financial statements and the consolidated HAC group audited financial statements, as applicable, for each period referred to under paragraph 4 above to the Bank not later than six (6) months after the end of such period and make them publicly available within thirty (30) days from their receipt of the audit report on their company's websites.

Section III. Procurement

A. General

1. **Goods and Non-consulting Services.** All goods and non-consulting services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding
2. **Other Methods of Procurement of Goods, and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional procedures stipulated in the Annex to this Schedule; (b) Shopping; and (c) Direct Contracting.

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants' Services.** The following methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Selection under a Fixed Budget; (c) Least Cost Selection; (d) Selection based on Consultants' Qualifications; (e) Single-source Selection of consulting firms; (i) Procedures set forth in Section V. of the Consultant Guidelines for the Selection of Individual Consultants; and (j) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in EURO)	Percentage of Expenditures to be financed (inclusive Taxes)
(1) Goods, non-consulting services, consultants’ services and Training for the Project	15,230,000	100%
(2) Retrenchment Payments under Part B(c)(ii) of the Project	4,770,000	100%
(3) Unallocated	2,000,000	
TOTAL AMOUNT	22,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee; or

- (b) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed Euro three million (€ 3,000,000) may be made for payments made prior to this date but on or after January 1, 2017, for Eligible Expenditures under Category (1).

2. The Closing Date is December 31, 2021.

Section V. Other Undertakings

A. For purposes of Part B(c) (ii) of the Project, the Borrower, through MSTI, shall carry out a specific audit of the reimbursement applications related to the Retrenchment Payments financed under the Project as part of the regular Project audit. Such audit shall include agreed upon procedures to obtain reasonable assurance on the eligibility, existence, correct amounts of paid retrenchment obligations under the Project.

B. Before finalizing any of its annual road sector investment programs, the Borrower shall, through MSTI, cause the Road Sector Companies to, verify with the Bank that such programs reflect sound economic criteria consistent with both the letter of sector policy adopted by the Borrower on March 16, 2017, and the objective of the Project.

C. The Borrower, through MSTI, shall cause each Road Sector Company to approve a governance plan acceptable to the Bank by June 30, 2017, and thereafter carry it out throughout Project implementation.

**ANNEX
to
SCHEDULE 2**

Additional Provisions for National Competitive Bidding

For the purposes of following National Competitive Bidding procedures in the procurement of goods, works and non-consulting services to be financed under the Loan, and to ensure broader consistency with the provisions of Section I of the Guidelines, the following modifications and additions shall apply:

(i) Procedures

Open competitive bidding method shall apply to all contracts. Invitations to bid shall be advertised in the Borrower's Official Gazette (*Narodne Novine*) and in at least one widely circulated national daily newspaper or on the website of MSTI allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) Participation of Government-owned Enterprises

Government-owned enterprises located and operating on the Borrower's territory shall be eligible to participate in bidding only if they can establish, to the Bank's satisfaction, that they are legally and financially autonomous, operate under commercial laws and are not a dependent agency of the Borrower's government. Said enterprises shall be subject to the same bid and performance security requirements as other bidders.

(iii) Bidding Documents

The Borrower shall use appropriate bidding documents that are acceptable to the Bank.

(iv) Bid Submission, Opening and Evaluation

(1) Bids shall be submitted in a single envelope containing the bidder's qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.

(2) Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.

(3) The evaluation of bids shall be done in strict adherence to the monetarily quantifiable criteria specified in the bidding documents and a merit point system shall not be used.

(4) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be granted without the prior approval of the Bank.

(5) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.

(6) No preference shall apply under National Competitive Bidding.

(v) Rejection of All Bids

(1) All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.

(2) When the number of bids received is less than two, re-bidding shall not be carried out without the Bank's prior concurrence.

(vi) Price Adjustment

Civil works contracts of long duration (e.g., more than eighteen (18) months) shall contain an appropriate price adjustment clause.

(vii) Securities

Bid securities should not exceed two percent (2%) of the estimated cost of the contract and performance securities not more than ten percent (10%). No advance payments shall be made to contractors without a suitable advance payment security. The wording of all such securities shall be included into the bidding documents and shall be acceptable to the Bank.

(vii) Right to inspect and audit

Each bidding document and contract financed from the proceeds of the Loan shall provide that the bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Bank, at its request, to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank. Acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for in the Procurement and Consultant Guidelines constitute an obstructive practice as defined in the Guidelines.

(ix) Fraud & Corruption

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank's policy to sanction firms or individuals, found to have engaged in fraudulent, corrupt, collusive, coercive, and obstructive practices as defined in the

Procurement Guidelines. The Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the World Bank Group.

(x) Conflict of Interest

Any bidding document and contract deemed acceptable by the Bank shall include provisions stating the Bank's policy of conflict of interest.

SCHEDULE 3

Amortization Schedule

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each May 15 and November 15 Beginning May 15, 2021 through May 15, 2026	8.33%
On November 15, 2026	8.37%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date

following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. “Annual Work Plan and Budget” means the annual work plan and budget referred to in Section I.F of Schedule 2 to this Agreement.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011.
3. “Applicable Environmental and Social Laws” means, collectively, any law, regulation or decision of the Borrower relating to environment, human health and safety, or laws and regulations relating to social issues, including those relating to labor, which is binding upon or otherwise applicable to the Borrower, the Road Sector Companies or the Project.
4. “ARZ” means *AUTOCESTA RIJEKA – ZAGREB, Zagreb-Rijeka* Motorway Company established and operating under the laws of the Borrower, a joint-stock company for construction and managing motorways entered in the Court Register of the Commercial Court of Zagreb under company registration number: 080211313, personal identification number: 96330310281, or any successor thereto.
5. “ARZ Legislation” means Law on Public Roads published in the Borrower’s Official Gazette No.100/1996 dated November 28, 1996.
6. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
7. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
8. “ESCR” means the environmental and social compliance report to be prepared by the Road Sector Companies to assess such companies’ current environmental and social management systems; environmental and social compliance of investment planning; existing operation and maintenance activities; and land acquisition and resettlement practices, all in line with the Applicable Environmental and Social Laws and the World Bank’s Safeguard Policies.
9. “ESMS” means the integrated environmental, health and safety and social management system, implemented by each of the Road Sector Companies, to manage the environmental and social performance of the Road Sector Companies in accordance with the Applicable Environmental and Social Laws and the World Bank’s Safeguard Policies.

10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
11. “HC” means *Hrvatske ceste*, the Croatian Roads Company established and operating under the laws of the Borrower for the management, construction and maintenance of its state roads, entered into the Court Register of the Commercial Court of Zagreb under company registration number: 080391653, personal identification number: 55545787885, or any successor thereto.
12. “HC Legislation” means the Law on Amendments to the Law on Public Roads published in the Borrower’s Official Gazette No. 27/2001 on March 30, 2001.
13. “HAC” means *Hrvatske Autoceste* – Croatian Motorways established and operating under the laws of the Borrower as a limited liability company, for management, construction and maintenance of motorways, entered in the Court Register of the Commercial Court of Zagreb under the company registration number: 080391688, personal identification number: 57500462912, or any successor thereto.
14. “HAC Legislation” means the Law on Amendments to the Law on Public Roads published in the Borrower’s Official Gazette No. 27/2001 on March 30, 2001.
15. “Inter-Institutional Agreement” means each of the agreements referred to in Section I.C (c) of Schedule 2 to this Agreement providing the roles and responsibilities of the Borrower, through MSTI, and each of HC and ARZ in implementing their respective parts of the Project.
16. “KPIs” means key performance indicators.
17. “MOF” means the Borrower’s Ministry of Finance.
18. “MSTI” means the Borrower’s Ministry of Sea, Transport and Infrastructure or any successor thereto.
19. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
20. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 24, 2017 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
21. “Project Implementation Manual” means the manual referred to under Section I.E of Schedule 2 to this Agreement.

22. "Project Steering Committee" or "PSC" means the committee referred to in Section I.A and B of Schedule 2 to this Agreement.
23. "RAMS" means road asset management system.
24. "Road Sector Company" means each of HC, HAC or ARZ, and "Road Sector Companies" or "RSCs" means all HC, HAC and ARZ jointly.
25. "Retrenchment Framework" means the Borrower's retrenchment framework, dated March 14, 2017, setting forth the background and rationale for potential retrenchment (including the alternative solutions to retrenchment analyzed), the retrenchment methods and procedures (including the options for the selection criteria for determining the workers to be retrenched), retrenchment management arrangements (including access to grievance redress), the legal and institutional framework, the severance payments and additional assistance due to retrenched workers and monitoring arrangements for the retrenchment process.
26. "Retrenchment Payments" means social benefits provided by HAC to its staff for retrenchment or redundancy under Part B(c)(ii) of the Project, including one-off voluntary severance payments, involuntary and notice payments and related payment of taxes and other social benefits set forth in HAC Retrenchment Plan acceptable to the Bank.
27. "Retrenchment Plans" means: (a) Retrenchment Plan for HC; (b) Retrenchment Plan for HAC; and (c) Retrenchment Plan for ARZ, each to be prepared by each Road Sector Company based on the Retrenchment Framework.
28. "Subsidiary Agreement" means the agreement referred to in Section I.C (a) of Schedule 2 to this Agreement pursuant to which the Borrower, through MOF and MSTI, shall make part of the proceeds of the Loan available to the HAC.
29. "Training" means the reasonable expenditures associated with the training, workshop and study tour participation of staff involved in Project activities, as specified in the Annual Work Plan and Budget approved by the Bank pursuant to Section I.F of Schedule 2 to this Agreement (other than expenditures for consultants' services), including travel and subsistence costs for training, workshop and study tour participants, costs associated with securing the services of trainers, rental of training and workshop facilities, preparation and reproduction of training and workshop materials, and other costs directly related to training course, workshop or study tour preparation and implementation.
30. "World Bank's Safeguard Policies" means the environmental and social operational policies and procedures of the World Bank applicable to the Project, namely OP/BP 4.01 on Environmental Assessment, valid and in force as of the date of this Agreement.

31. "ZUC" means *Zupanijske Uprave za Ceste* (County Roads Authority), the Borrower's County Roads Directorates established for each county under Article 83 of the Borrower's Roads' Act published in the Official Gazette No. 84/2011 dated July 20, 2011.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. Section 3.01. (*Front-end Fee*) is modified to read as follows:

"Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the "Front-end Fee").

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the "Commitment Charge"). The Commitment Charge shall accrue from a date sixty days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date."
3. In the Appendix, **Definitions**, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally paragraph 48) of the Appendix, the definition of "Front-end Fee" is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term "Loan Payment" is modified to read as follows:

“68. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

7. In the renumbered paragraph 73 (originally paragraph 72) of the Appendix, the definition of “Payment Date” is modified by deleting the word “is” and inserting the words “and Commitment Charge are” after the word “interest”.