

CONFORMED COPY

LOAN NUMBER 4241 MK

Loan Agreement

(Irrigation Rehabilitation and Restructuring Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA  
(THE BORROWER)

and

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT (THE BANK)

Dated December 3, 1997

LOAN NUMBER 4241 MK

LOAN AGREEMENT

AGREEMENT, dated December 3, 1997, between the Borrower and the Bank.

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to the Development Credit Agreement between the Borrower and the International Development Association (the Association) of even date herewith (the Development Credit Agreement), has requested the Bank to assist in the financing of the Project;

(B) the Borrower has also requested the Association to provide additional financial assistance towards the financing of the Project and by the Development Credit Agreement the Association is agreeing to provide such assistance in an aggregate principal amount equivalent to three million seven hundred thousand Special Drawing Rights (SDR 3,700,000) (the Credit);

(C) the Borrower and the Bank intend, to the extent practicable, that the proceeds of the credit provided for in the Development Credit Agreement be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Loan provided for in this Agreement are made;

(D) the Borrower intends to contract from the Kingdom of the Netherlands (Netherlands) a grant (the Dutch Grant) in an amount of \$11,980,000 equivalent to assist in financing part of the Project on the terms and conditions set forth in an

agreement to be entered into between the Borrower and the Netherlands (the Dutch Grant Agreement); and

(E) Parts B (1), (2) and (3) and E of the Project will be carried out by the Participating WMOs (as defined in the Development Credit Agreement) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the Participating WMOs on a grant basis part of the proceeds of the Dutch Grant as provided in the Development Credit Agreement;

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 for Single Currency Loans" of the Bank, dated May 30, 1995, with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Bank. If (a) the right of the Borrower to make withdrawals from the Loan Account shall have been suspended with respect to any amount of the Loan for a continuous period of thirty days, or (b) at any time, the Bank determines, after consultation with the Borrower, that an amount of the Loan will not be required to finance the Project's costs to be financed out of the proceeds of the Loan, or (c) at any time, the Bank determines, with respect to any contract to be financed out of the proceeds of the Loan, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Loan during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Bank to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (d) at any time, the Bank determines that the procurement of any contract to be financed out of the proceeds of the Loan is inconsistent with the procedures set forth or referred to in the Loan Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Loan, or (e) after the Closing Date, an amount of the Loan shall remain unwithdrawn from the Loan Account, or (f) the Bank shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Loan, the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be canceled."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions, in the Development Credit Agreement and in the Preamble to this Agreement have the respective meanings therein set forth and the term "Development Credit Agreement" means the agreement of even date herewith between the Borrower and the Association for the Project, as such agreement may be amended from time to time; and such term includes the "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as applied to such agreement, and all schedules and agreements supplemental to the Development Credit 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, an amount equal to thirteen million five hundred thousand deutsche mark (DEM 13,500,000).

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 the Development Credit Agreement for expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods and works required for the Project described in Schedule 2 to the Development Credit 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 deutsche mark a special deposit account 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 2 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2004 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 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 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in deutsche mark for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.05, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.06. Interest and other charges shall be payable 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 1 to this Agreement.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) Subject to paragraph (b) of this Section, Sections 2.02 (b), 3.01, 3.02, 3.03, 4.01, 4.02, 4.03 and 5.01 of the Development Credit Agreement and Schedules 1, 2, 3 and 4 thereto are incorporated in the Loan Agreement, with the following modifications in said Sections and Schedules unless the context otherwise requires:

(i) the term "Association" shall be read as "Bank";

(ii) the term "Credit" and "Credit Account" shall be read as "Loan" and "Loan Account"; and

(iii) the term "this Agreement" shall be read as "the Loan Agreement".

(b) So long as any part of the Credit provided for under the Development Credit Agreement shall remain outstanding and unless the Borrower has been notified otherwise by the Bank:

(i) all actions taken, including approvals given, by the Association pursuant to any of the Sections of, and Schedules to, the Development Credit Agreement enumerated in paragraph (a) of this Section, as well as pursuant to Section 2.02 (a) of the Development Credit Agreement, shall be deemed to be taken or given in the name and on behalf of both the Association and the Bank; and

(ii) all information or documentation furnished by the Borrower to the Association pursuant to the provisions of any of Sections of the Development Credit Agreement or Schedules thereto shall be deemed to be furnished to both the Association and the Bank.

### ARTICLE IV

#### Remedies of the Bank

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified, namely, the events set out in Section 6.01 of the Development Credit Agreement.

Section 4.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified, namely, the events set out in Section 6.02 of the Development Credit Agreement, provided, however, that the term "Association" wherever it appears in such Section shall be read as "Bank".

### ARTICLE V

#### Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the Development Credit Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 5.02. 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.

Section 5.03. If the Development Credit Agreement terminates prior to the termination of this Agreement, the provisions of the Development Credit Agreement referred to in this Agreement shall continue in full force and effect between the

Borrower and the Bank.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance  
Dame Gruev 14  
91000 Skopje

Telex:

51119

For the Bank:

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

Cable address:

Telex:

INDEVAS                      248423 (MCI) or  
Washington, D.C.            64145 (MCI)

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.

THE BORROWER

By /s/ L. Acevska

Authorized Representative

THE BANK

By /s/ A. Chhibber

Acting Regional Vice President  
Europe and Central Asia

SCHEDULE 1

Amortization Schedule

Date Payment Due	Payment of Principal (Expressed in deutsche mark)
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June 15, 2003	345,000
December 15, 2003	355,000
June 15, 2004	360,000
December 15, 2004	365,000
June 15, 2005	370,000
December 15, 2005	380,000
June 15, 2006	385,000
December 15, 2006	390,000
June 15, 2007	400,000
December 15, 2007	405,000
June 15, 2008	410,000
December 15, 2008	420,000
June 15, 2009	425,000
December 15, 2009	435,000
June 15, 2010	440,000
December 15, 2010	450,000
June 15, 2011	455,000
December 15, 2011	465,000
June 15, 2012	475,000
December 15, 2012	480,000
June 15, 2013	490,000
December 15, 2013	500,000
June 15, 2014	505,000
December 15, 2014	515,000
June 15, 2015	525,000
December 15, 2015	535,000
June 15, 2016	540,000
December 15, 2016	550,000
June 15, 2017	560,000
December 15, 2017	570,000

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\* The figures in this column represent the amount in deutsche mark to be repaid, except as provided in Section 4.04 (d) of the General Conditions.

## SCHEDULE 2

### 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 the Development Credit 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 DEM 1,000,000.

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 deposit into the Special Account of an amount or amounts 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 into 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;

(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 the Development Credit 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;

(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, minus the total amount of all outstanding special commitments 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.

