

CONFORMED COPY

LOAN NUMBER 4119 HR

Project Agreement

(Coastal Forest Reconstruction and Protection Project)

between

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

and

HRVATSKE SUME

Dated January 31, 1997

LOAN NUMBER 4119 HR

PROJECT AGREEMENT

AGREEMENT, dated January 31, 1997, between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and HRVATSKE SUME (HS).

WHEREAS (A) by the Loan Agreement of even date herewith between Republic of Croatia (the Borrower) and the Bank, the Bank has agreed to make available to the Borrower an amount in various currencies equivalent to forty-two million dollars (\$42,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that HS agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and HS, a portion of the proceeds of the loan provided for under the Loan Agreement will be relented to HS on the terms and conditions set forth in said Subsidiary Loan Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. HS declares its commitment to the objectives of the Project as set forth in Schedule 1 to the Loan Agreement, and, to this end, shall carry out Parts A (1) (a) and A (2); B(1) (b) and (c); B(2) (b) and (c); C(2) (a) and (b); and C(3) (a) of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Parts of the Project.

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

Section 2.03. (a) HS shall carry out the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement and Parts A (1) (a) and A (2); B (1) (b) and (c); B(2) (b) and (c); C(2) (a) and (b); and C(3) (a) of the Project.

(b) For the purposes of Section 9.08 of the General Conditions and without limitation thereto, HS shall:

- (i) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Bank, a plan for the future operation of the Project; and
- (ii) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

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

Section 2.05. (a) HS shall, at the request of the Bank, exchange views with the Bank with regard to the progress of Parts A (1) (a) and A (2); B(1) (b) and (c); B(2) (b) and (c); C(2) (a) and (b); and C(3) (a) of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Loan.

(b) HS shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of Parts A (1) (a) and A (2); B(1) (b) and (c); B(2) (b) and (c); C(2) (a) and (b); and C(3) (a) of the Project, the accomplishment of the purposes of the Loan, or the performance by HS of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. For the purpose of carrying out forest reconstruction works on private land under Part A (1) (b) of the Project, HS shall enter into contracts with private owners, in the form and substance acceptable to the Bank, which shall specify the scope of works, the terms of financing and supervision responsibilities of HS.

Section 2.07. For the purpose of carrying out Parts C(2)(a) and (b) of the Project, HS shall enter into agreements, satisfactory to the Bank, with ASA and FRI and University of Zagreb, which shall set

forth the responsibilities of each of the above-mentioned entities with respect to the Project implementation.

ARTICLE III

Management and Operations of HS

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

Section 3.02. HS shall take out and maintain with responsible insurers, or make other provision satisfactory to the Bank for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) HS shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) HS shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year: (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.

Section 4.02. Not later than June 30, 1999, HS shall adopt a new cost accounting system which shall be based on international accounting standards.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

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

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

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

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

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:
INTBAFRAD	248423 (MCI)
Washington, D.C.	64145 (MCI)

For HS:

Hrvatske Sume
Lj. F Vukotinovica 2
Zagreb

Fax:
01-455-1138

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

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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/ Hans Apitz
Acting Regional Vice President
Europe and Central Asia

HRVATSKE SUME

By /s/ Miomir Zuzul
Authorized Representative



