

CONFORMED COPY

CREDIT NUMBER 3442 MK

Development Credit Agreement

(Second Financial and Enterprise Sector Adjustment Credit)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA
(the Borrower)

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(the Association)

Dated December 15, 2000

CREDIT NUMBER 3442 MK

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 15, 2000, between the Borrower and the Association.

WHEREAS (A) the Association has received from the Borrower a letter dated November 17, 2000, describing a program of actions, objectives and policies designed to achieve structural adjustment of the Borrower's financial and enterprise sectors (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance in support of the Program, and by an agreement of even date herewith between the Borrower and the Bank (the Loan Agreement), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to thirty million three hundred and ten thousand dollars (\$30,310,000) (the Loan); and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the

Borrower by making the Credit in three tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through October 6, 1999) with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"'Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.";

and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) "Banking Law" means the Borrower's Law on Banking published in the Official Gazette No. 63/00.

(b) "Bankruptcy Law" means the Borrower's Law on Bankruptcy published in the Official Gazette No. 55/97 as amended as at the date of this Agreement.

(c) "BRA" means the Bank Rehabilitation Agency established by the Borrower in 1994 by the Law on Commercial Banks and Savings Houses (published in the Official Gazette No. 31/93) as amended as at the date

of this Agreement to facilitate resolution of bad debts of commercial banks, or any successor thereto.

(d) "Central Bank Law" means the Borrower's Law on the National Bank of the Borrower published in the Official Gazette No. 26/92 as amended as at the date of this Agreement.

(e) "Company Law" means the Borrower's Law on Trading Companies published in the Official Gazette No. 28/96 as amended as at the date of this Agreement.

(f) "Deposit Account" means the account referred to in Section 2.02 (b) of this Agreement.

(g) "Deposit Insurance Law" means the Borrower's Law on the Deposit Insurance Fund and the Establishment and Operations of the Deposit Insurance Fund published in the Official Gazette No. 63/00.

(h) "Feni" means the state-owned company FENI-Kavadarci (Mines and Industry for Production of Nickel, Steel and Antimony) registered in the District Commercial Court of Skopje on April 10, 1990 under registration number 210/90.

(i) "Jugohrom" means the joint stock company HEK Jugohrom registered in the Registration Court of Skopje under registration number 10490/98.

(j) "Komericialna Banka" means the commercial bank operating under NBRM (as defined hereinafter) License No.221 dated December 27, 1989.

(k) "Makedonska Banka" means the commercial bank operating under NBRM (as defined hereinafter) License No. O.BR. 20/I dated July 29, 1992.

(l) "Mortgage Law" means the Borrower's Law on Contractual Mortgages published in the Official Gazette No. 59/00.

(m) "NBRM" means the National Bank of the Borrower, or any successor thereto.

(n) "Pledge Law" means the Borrower's Law on Pledges on Movable Property published in the Official Gazette No. 21/98, as amended as at the date of this Agreement.

(o) "Privatization Legislation" means (i) the Borrower's Law on Transformation of Enterprises with Social Capital published in the Official Gazette No. 38/93, as amended as at the date of this Agreement; (ii) the Borrower's Law on Privatization of State Capital published in the Official Gazette No. 37/96, as amended as at the date of this Agreement; (iii) the Borrower's Law on Transformation of Enterprises and Cooperatives with Social Capital which use Agricultural Land published in the Official Gazette No. 19/96, as amended as at the date of this Agreement; (iv) Government Decree No. 56/00 on the Methods and Procedures for the Sale of Stocks and Shares issued to the Privatization Agency of the Borrower dated July 11, 2000; and (v) Government Resolution No. 23-3743/1 on the Action Plan for the Restructuring of Loss-Makers dated August 7, 2000.

(p) "SEC" means the Securities and Exchange Commission of the Borrower.

(q) "Securities Law" means the Borrower's Law on Securities published in the Official Gazette No. 63/2000.

(r) "SRO" means a self-regulatory organization which comprises a professional body established by representatives of a specific sector

responsible for establishing a regulatory framework for that sector, certifying its members, promoting best sector practices, and enforcing disciplinary measures.

(s) "Stopanska Banka Bitola" means the commercial bank operating under NBRM License No.02-14/110-95 dated June 1, 1995.

(t) "Tutunska Banka" means the commercial bank operating under NBRM License No.02-15/XXII-1/93 dated May 20, 1993.

(u) "ZPP" means the Payment Operations Bureau of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to fifteen million two hundred thousand Special Drawing Rights (SDR 15,200,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account:

(A) after the aggregate of the proceeds of the withdrawn from the Credit Account shall have reached the equivalent of SDR 3,000,000 unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association,

(i) with the progress achieved by the Borrower in the carrying out of the Program;

(ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and

(iii) that the actions described in Section I of Schedule 2 to this Agreement have been taken; and

(B) after the aggregate of the proceeds of the withdrawn from the Credit Account shall have reached the equivalent of SDR 9,100,000

unless the Association shall be satisfied,
after an exchange of views as described in
Section 3.01 of this Agreement based on evidence
satisfactory to the Association,

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and
- (iii) that the actions described in Section II of Schedule 2 to this Agreement have been taken.

If, after said exchange of views, the Association is not so satisfied, the Association may give notice to the Borrower to that effect and, if within ninety (90) days after such notice, the Borrower shall not have taken steps satisfactory to the Association, in respect of (i), (ii) and (iii) above, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be December 31, 2002, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2010 and ending June 15, 2035. Each installment to and including the installment payable on June 15, 2020 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national

product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four (4) months after the date of the Association's

request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

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

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Finance of the Borrower is designated as the 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

Facsimile:

389 91 117

280

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

202-477-6391

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/ Goce Georgievski
Authorized Representative

THE ASSOCIATION

By /s/ Christiaan J. Poortman
Acting Regional Vice President
Europe and Central Asia

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery

897 platinum	897.3	Jewelry of gold, silver or group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971 gold	-	Gold, non-monetary (excluding ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Section I. Actions Referred to in Section 2.02 (d) (A) of this Agreement

1. The Borrower shall have submitted to Parliament a consolidated draft law replacing the Mortgage Law and the Pledge Law and creating an integrated framework for movable and immovable collateral in a manner satisfactory to the Association.

2. The Borrower shall have adopted:

- (i) amendments to existing accounting and auditing legislation satisfactory to the Association mandating the creation and setting up of an SRO for chartered accountants and auditors under a time-bound action plan; and
- (ii) revised legislation simplifying company formation and registration procedures and foreign direct investor entry, and the Government of the Borrower shall have issued any necessary implementing regulations for legislation, each in a manner satisfactory to the Association.

such

3. The Borrower shall have adopted amendments to applicable legislation to abolish the role of the BRA in the process of bank restructuring and to establish an irrevocable 3 year liquidation provision for BRA.

4. The NBRM shall have: (i) entered into corrective action programs satisfactory to the Association, with each of Komercijalna Banka, Stopanska Banka Bitola, Tutunska Banka and Makedonska Banka, in

accordance with NBRM's enforcement powers under the Banking Law and the Central Bank Law, designed to enhance compliance with NBRM regulations and to bring each bank's internal policies and procedures in line with international best practice; and (ii) submitted evidence satisfactory to the Association of initial implementation of the measures specified in such corrective action programs.

5. The Borrower shall have privatized and, if applicable, financially restructured, or closed (each as defined in Section III of this Schedule): (i) Jugohrom; and (ii) four large loss-making enterprises, as agreed with the Association.

6. The Borrower shall have demonstrated compliance with the declining cap on government support for the enterprise sector, as agreed with the Association.

Section II. Actions Referred to in Section 2.02 (d) (B) of this Agreement

1. The Borrower shall have adopted a consolidated law replacing the Mortgage Law and the Pledge Law to create an integrated framework for movable and immovable collateral in a manner satisfactory to the Association.

2. (a) NBRM shall have furnished to the Association a compliance report, showing improved compliance with the Borrower's prudential requirements by the Borrower's banking institutions from the level of such compliance on March 31, 2000 in a manner satisfactory to the Association.

(b) The Borrower shall have provided evidence satisfactory to the Association of implementation by Komercijalna Banka, Stopanska Banka Bitola, Tutunska Banka and Makedonska Banka of measures specified in the corrective action programs referred to in paragraph 4 of Section I of this Schedule .

3. ZPP shall have transferred all corporate customer local currency current accounts to banking institutions.

4. The Borrower shall have demonstrated compliance with the declining cap on government support for the enterprise sector, as agreed with the Association and referred to in paragraph 6 of Section I of this Schedule.

5. The Borrower shall have privatized and, if applicable, financially restructured, or closed (each as defined in Section III of this Schedule) such additional loss-making enterprises as agreed with the Association, whose losses for fiscal year 1999, when aggregated with the losses of Feni and the enterprises identified pursuant to paragraph 5 of Section I of this Schedule for fiscal year 1999 represent at least two per cent of the Borrower's 1999 gross domestic product.

6. The Borrower shall have disposed of the assets of BRA as evidenced by independent external auditors satisfactory to the Association, by: (i) transferring amounts due from government agencies and state-owned enterprises to the Borrower's Ministry of Finance; (ii) financially restructuring (as defined in Section III of this Schedule) amounts due from Jugohrom and the loss-making enterprises identified pursuant to paragraph 5 (ii) of Section I and paragraph 5 of Section II of this Schedule; and (iii) reducing the residual portfolio of claims in a manner satisfactory to the Association.

Section III: Definitions

For the purposes of this Schedule, the following terms have the following meanings:

1. "Privatized" means, in respect of an enterprise, that the transfer

of effective control of such enterprise to a strategic investor or investors has been completed and any residual government ownership has been eliminated, each in accordance with the Privatization Legislation and the Securities Law.

2. "Financially restructured" means, in respect of an enterprise, that the restructuring and/or forgiveness of debt of such enterprise has taken place in accordance with the Privatization Legislation either under the Bankruptcy Law or under a voluntary out-of-court arrangement.

3. "Closed" means, in respect of an enterprise, that: (i) the creditor committee constituted under the bankruptcy proceedings under the Bankruptcy Law has taken a formal decision to forgo any reorganization options and to pursue the liquidation of such enterprise through the sale of the assets of such enterprise to the highest bidder; or (ii) the general assembly of shareholders of such enterprise has taken a formal decision in accordance with the Company Law to pursue the liquidation of such enterprise through the sale of the assets of such enterprise to the highest bidder.

