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**LOAN NUMBER 7640 HR  
GEF TRUST FUND GRANT NUMBER TF092704**

# **Loan Agreement**

**(Coastal Cities Pollution Control Project 2)**

**between**

**REPUBLIC OF CROATIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated February 6, 2009**

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**LOAN NUMBER 7640 HR**  
**GEF TRUST FUND GRANT NUMBER TF092704**

**LOAN AGREEMENT**

Agreement dated February 6, 2009, between the REPUBLIC OF CROATIA (“Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”).

WHEREAS (A) the Bank has received a letter from the Borrower, dated May 29, 2003, describing a program designed to improve the provision of efficient and sustainable sanitation services in the Borrower’s coastal cities and improve coastal water quality along the Adriatic coast and declaring the Borrower’s commitment to the execution of such program, and a letter dated February 27, 2008, confirming the Borrower’s request for support in the preparation of the second phase of such program (both letters hereinafter collectively referred to as the Program);

(B) the Borrower has requested the Bank’s support in the execution of the Program through a series of three (3) loans up to one hundred forty million Euro (EUR 140,000,000) over a period of approximately ten (10) years to be utilized by the Borrower in implementing the Program;

(C) the first phase of the Program has been supported by the Bank through a loan in an amount equal to forty million Euro (EUR 40,000,000) under the Loan Agreement (Coastal Cities Pollution Control Project, Loan No. 7226-HR) between the Borrower and the Bank dated July 2, 2004;

(D) the Borrower having been satisfied as to the feasibility and priority of the second phase of the Program (the Project) described in Schedule 1 to this Agreement, has requested the Bank to assist in the financing of the Project; and

(E) the Borrower intends to obtain a grant from the Global Environment Facility (GEF) in an amount equal to six million four hundred thousand dollars (\$6,400,000) to assist in financing part of the cost of Parts 1, 2 and 3.1 of the Project, on the terms and conditions set forth in a GEF Trust Fund Grant Agreement (Co-financing Agreement) to be entered into between the Borrower and the Bank, acting as an implementing agency of the GEF.

NOW THEREFORE 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 and in the Preamble and 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 sixty million Euro (EUR 60,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the 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 (60) days after the Effective Date.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread; provided, 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 (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
- 2.05. The Payment Dates are April 15 and October 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (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 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.
- (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 objectives of the Project and the Program. To this end, the Borrower shall: (i) carry out Part 3.2 of the Project through the MEPPPC; and (ii) cause Parts 1, 2 and 3.1 of the Project to be carried out by the Project Implementing Entity, in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 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 Events of Suspension consist of the following:
- (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
  - (b) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in paragraph (b) Section 4.01 of this Agreement occurs.

### **ARTICLE V - EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Subsidiary Loan and Grant Agreement has been executed on behalf of the Borrower and the Project Implementing Entity.
  - (b) At least one (1) Sub-Loan and/or Sub-Grant Agreement has been executed on behalf of the Project Implementing Entity, a Municipality and a MWSC.

- (c) The Co-financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 5.02. The Additional Legal Matters consist of the following:
- (a) The Subsidiary Loan and Grant Agreement has been duly authorized or approved by the Borrower and the Project Implementing Entity and is legally binding upon the Borrower and the Project Implementing Entity in accordance with its terms.
  - (b) The Sub-Loan and/or Sub-Grant Agreement has been duly authorized or approved by the Project Implementing Entity, the Municipality and the MWSC and is legally binding upon the Project Implementing Entity, the Municipality and the MWSC in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

- 6.01. The Borrower's Representative is the Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance  
Katanciceva 5  
10000 Zagreb  
Republic of Croatia

Facsimile:

(385-1) 4922-598

- 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

Cable address:

Telex:

Facsimile:

INTBAFRAD                      248423(MCI) or                      (1-202) 477-6391  
Washington, D.C.                      64145(MCI)

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

REPUBLIC OF CROATIA

By: /s/ Ivan Suker

Authorized Representative

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Andras Horvai

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are: (i) to improve the provision of efficient and sustainable wastewater services in participating coastal municipalities; and (ii) to reduce the nutrient load entering the Borrower's coastal waters from, and pilot innovative wastewater treatment solutions in, selected municipalities.

The Project constitutes the second phase of the Program, and consists of the following parts:

#### Part 1: Wastewater Investments

1.1 Financing and carrying out of Sub-projects for construction, rehabilitation and expansion of:

(a) sewerage networks, main collectors, pumping stations, wastewater treatment facilities, and submarine outfalls in selected Municipalities; and

(b) enhanced nutrient reduction wastewater treatment facilities in selected Municipalities.

1.2 Carrying out of feasibility studies, environmental impact assessments and preparation of other documentation necessary to secure location and construction permits, detailed design and final bidding documents for the works to be financed under Part 1.1 of the Project.

#### Part 2: Institutional Strengthening

2.1 Institutional strengthening of HV and MRDFWM in sector development and EU accession support, including the provision of consultants' services and equipment required for: (i) the implementation of the Water Management Strategy; (ii) the establishment of a monitoring and benchmarking system in HV to monitor the operational, financial and environmental performance of each MWSC; (iii) the carrying out of studies to design and implement sludge and sewage treatment and disposal solutions for MWSCs; and (iv) the carrying out of an in-depth study on investment needs and financing plan to meet EU requirements, including preparation of feasibility studies and bidding documents for projects eligible for EU financing.

2.2 Institutional strengthening of MWSCs aimed at the improvement of their financial and operating efficiency, including works, equipment, software, consultants' services and training required for the improvement of billing and collection, the reduction of non-revenue water, establishment of cost centers in multi-service utilities, improvement of operational efficiency, cadastral survey of network conditions,

establishment of cadastre of pipes, remote sensing, staff training and other cost efficiency measures.

2.3 Provision of consultants' services and equipment to support the PIU in Project implementation, including completing the preparation and appraisal of Sub-projects, auditing, training, public information and communication.

### Part 3: Seawater Quality Monitoring

Improvement of the coverage of the networks which monitor the quality of wastewater and seawater with a view to provide sufficient and adequate information of the Borrower's coastal waters and discharges from wastewaters and thereby improve the coordination, comparability and the analytical quality of the results, including:

3.1 Improvement and expansion of the capacity of HV's monitoring systems to assess the impact of the Program on the quality of coastal waters, through the provision of consultants' services and equipment, state-of-the-art technologies, including the monitoring of the enhanced nutrient reduction waste water treatment plans, research to measure ecological impacts, and dissemination activities.

3.2 Strengthening of MEPPPC environmental monitoring capabilities to assess the quality of the Borrower's Adriatic Sea waters and the impact of the Project on seawater quality, through the provision of consultants' services and equipment, encompassing the extension of monitoring activities to all the MWSCs participating in the Project and increased focus on EU compliance.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Borrower shall assign to the MRDFWM responsibility for overseeing the implementation by the Project Implementing Entity of Parts 1, 2 and 3.1 of the Project and for supervising the performance of the Project Implementing Entity.

2. The Borrower, through the MEPPPC, shall carry out Part 3.2 of the Project and coordinate with the PIU on matters regarding Project monitoring and evaluation and financial management, financial reports and audits in accordance with the provisions of Section II.A and II.B below.

**B. Subsidiary Loan and Grant Agreement**

1. For the purpose of carrying out of Parts 1, 2 and 3.1 of the Project, the Borrower shall make the proceeds of the Loan allocated from time to time to Categories (1)(a), (2) and (3)(a) available to the Project Implementing Entity under a Subsidiary Loan and Grant Agreement to be entered into between the Borrower and the Project Implementing Entity, under terms and conditions approved by the Bank, which shall include, *inter alia*, the following conditions for the Subsidiary Loan: (i) it shall be denominated in Euro; and (ii) it shall be the equivalent in Euro (determined as of the date or respective dates of repayment of the principal amount of the Loan specified in Schedule 3 to this Agreement) of the value of the currency or currencies withdrawn from the Loan Account or paid out of the Designated Account for Parts 1, 2 and 3.1 of the Project on account of the cost of goods, works and services and to be financed under the Subsidiary Loan out of the proceeds of the Loan allocated from time to time to Categories (1)(a), (2) and (3)(a); (iii) it shall be charged interest on the principal amount withdrawn and outstanding from time to time at the rate applicable from time to time to the Loan pursuant to the provisions of Section 2.04 of this Agreement; and (iv) it shall be repaid to the Borrower in accordance with an amortization schedule, as set forth in the Subsidiary Loan Agreement, not exceeding the maturity of the Loan, inclusive of a grace period not exceeding five (5) years.

2. The Borrower shall exercise its rights under the Subsidiary Loan and Grant 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 Loan and Grant Agreement or any of its provisions.

**C. Anti-Corruption**

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

**D. Safeguards Compliance**

The Borrower, through the MRDFWM, shall take all measures within its control to ensure that the Project Implementing Entity carry out and screen Sub-projects to ensure their consistency with the principles and requirements set forth in the Resettlement Policy Framework and the Environmental Safeguard Framework and the satisfaction of any and all applicable requirements for the preparation, disclosure and implementation of a site-specific EIA, EMP and/or LARAP, as the case may be, before the submission of any withdrawal request in respect of any Sub-project necessitating the respective EIA, EMP and/or LARAP.

**E. Operational Manual**

The Borrower, through the MRDFWM, shall take all action required on its part to ensure the Project is carried out in accordance with the requirements set forth or referred to in the Operational Manual.

**Section II. Project Monitoring Reporting and Evaluation****A. Project Reports**

1. The Borrower, through the MEPPPC, shall monitor and evaluate the progress of Part 3.2 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 the Monitoring and Evaluation Indicators for Part 3.2 of the Project. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Project Implementing Entity not later two (2) weeks after the end of the period covered by such report for incorporation and forwarding by the Project Implementing Entity to the Bank of the overall Project Report.

2. The Borrower, through the MEPPPC, shall provide to the Project Implementing Entity not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions, all such information on the execution of Part 3.2 of the Project as the Bank shall reasonably request for the purposes of that Section.

**B. Mid-Term Review**

The Borrower, through the MEPPPC, shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation Indicators for Part 3.2 of the Project, the carrying out of Part 3.2 of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about March 30, 2011, a report integrating the results of the monitoring and evaluation activities and setting out the measures recommended to ensure the efficient carrying out of Part 3.2 of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, on or about June 30, 2011, or such later date as the Bank shall request, the report referred to in the preceding paragraph (b), and, thereafter, take all measures required to ensure the efficient completion of Part 3.2 of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matter.

**B. Financial Management, Financial Reports and Audits**

1. The Borrower 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. The Borrower shall prepare and furnish to the Bank as part of the Project Reports and 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 shall have its Financial Statements for the Project 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. 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.

**Section III. Procurement**

**A. General**

1. **Goods, Services (other than Consultants' Services) and Works.** All goods, services (other than consultants' services) and works 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods, Services (other than Consultants’ Services) and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, services (other than consultants’ services) and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods, Services (other than Consultants’ Services) and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, services (other than consultants’ services) and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Methods</b>	
(a)	Limited International Bidding
(b)	National Competitive Bidding, subject to the additional procedures stipulated in the Annex to this Schedule
(c)	Shopping
(d)	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 table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<b>Procurement Methods</b>	
(a)	Quality-Based Selection
(b)	Selection under a Fixed-Budget
(c)	Least-Cost Selection
(d)	Selection Based on Consultants' Qualifications
(e)	Single Source Selection
(f)	Individual Consultants
(g)	Sole-source basis for 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 "World Bank Disbursement Guidelines for Projects" dated May 2006, 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.

<b>Category</b>	<b>Amount of the Loan Allocated (Expressed in Euro)</b>	<b>Percentage of Expenditures to be Financed</b>
(1) Goods:		50%
(a) under Parts 1, 2 and 3.1 of the Project	250,000	
(b) under Part 3.2 of the Project	250,000	

<b>Category</b>	<b>Amount of the Loan Allocated (Expressed in Euro)</b>	<b>Percentage of Expenditures to be Financed</b>
(2) Works:		
(a) under Part 1.1 (a) of the Project	44,150,000	50%
(b) under Part 1.1 (b) of the Project	6,000,000	40%
(3) Consultants' Services:		50%
(a) under Parts 1, 2 and 3.1 of the Project	5,750,000	
(b) under Part 3.2 of the Project	2,100,000	
(4) Unallocated	1,500,000	
<b>TOTAL AMOUNT</b>	<u>60,000,000</u>	

**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;

    (b) for payments made prior to the date of this Agreement; or

    (c) on account of works under Category (2), until and unless the Project Implementing Entity has submitted to the Bank a written attestation for the Sub-project that entails the works in respect of which the withdrawal is requested that: (A) the Sub-project does not require the submission, preparation and disclosure of a site-specific EIA, EMP or LARAP, as the case may be; or (B) the Sub-project does require the submission, preparation and disclosure of a site-specific EIA, EMP or LARAP, as the case may be, and such requirements have been fulfilled to the satisfaction of the Bank.

2. The Closing Date is September 30, 2014.

**ANNEX  
TO  
SCHEDULE 2**

For the purposes of following National Competitive Bidding procedures in the procurement of goods, services (other than consultants' services) and works to be financed under the Loan, the following modifications and additions shall apply:

(i) Procedures

The public 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 at the Project Implementing Entity's website, allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) Assessment of Bidders' Qualifications

When pre-qualification shall be required for large or complex contracts, invitations to pre-qualify for bidding shall be advertised in the Borrower's Official Gazette (*Narodne Novine*) and at least one widely circulated national daily newspaper or at the Project Implementing Entity's website a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents, which shall be determined by a 'pass/fail' method, not through the use of a merit point system. Where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents.

(iii) 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.

(iv) Bidding Documents

The Project Implementing Entity acting as procuring entity shall use the appropriate standard bidding documents for the procurement of goods or services (other than consultants' services), as defined in the paragraph 1.1 of the Guidelines, which shall contain draft contract and conditions of contract acceptable to the Bank.

(v) 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.

(vi) Price Adjustment

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

(vii) 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.

(viii) 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.

### 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: (i) Withdrawn Loan Balance as of the first Principal Payment Date; by (ii) 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.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On each April 15 and October 15  beginning on April 15, 2014 through October 15, 2023	5%

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.

**APPENDIX****Section I. Definitions**

1. “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.
2. “Category” means a category of items to be financed out of the proceeds of the Loan set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Co-financier” means the Global Environment Facility or GEF, referred to in paragraph 15 of the Appendix to the General Conditions.
4. “Co-financing” or “Grant” means an amount equal to six million four hundred thousands dollars be provided by the Co-financier to assist in financing part of the cost of Parts 1, 2 and 3.1 of the Project.
5. “Co-financing Agreement” means the GEF Trust Fund Grant Agreement to be entered into between the Borrower and the Co-financier providing for the Co-financing, as such agreement may be amended from time to time. “Co-financing Agreement” includes all appendices, schedules and agreements supplemental to the GEF Trust Fund Grant Agreement.
6. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
7. “Designated Account” means an account into which the Bank may, at the Borrower’s request, deposit amounts withdrawn from the Loan Account for the purpose of paying for Eligible Expenditures as they are incurred.
8. “Environmental Framework” or “EF” means the environmental framework adopted by the Borrower on June 23, 2008, setting forth the procedures to be used by the Project Implementing Entity for the preparation and approval of a Sub-project (as hereinafter defined) specific Environmental Impact Assessment and/or Environmental Management Plan for any construction, rehabilitation or expansion of waste water services where there exists environmental issues of a type and scale sufficient to trigger the Bank’s policies thereon.
9. “Environmental Impact Assessment” or “EIA” means a report identifying and assessing the potential environmental impacts of a proposed Sub-project (as hereinafter defined), evaluating alternatives, and designing appropriate mitigation, management, and monitoring measures.

10. “Environmental Management Plan” or “EMP” means a site-specific environmental management plan prepared in accordance with the parameters laid down in the EF (as hereinafter defined), acceptable to the Bank, to be developed by the Project Implementing Entity for each applicable Sub-project, setting forth a set of mitigation, monitoring, and institutional measures to be taken during Sub-project implementation and operation to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, and including the actions needed to implement these measures.
11. “EU” means the European Union.
12. “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s or Project Implementing Entity’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.
13. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
14. “Land Acquisition and Resettlement Action Plan” or “LARAP” means a site-specific land acquisition and resettlement action plan to be developed by the Project Implementing Entity for each Sub-project which involves Land Acquisition and Resettlement in accordance with the parameters laid down in the LARPF (as hereinafter defined) and the Operational Manual, and which has been found acceptable by the Bank.
15. “Land Acquisition and Resettlement Policy Framework” or “LARPF” means the land acquisition and resettlement policy framework adopted by the Borrower on June 23, 2008, setting forth the principles and objectives governing land acquisition and Resettlement preparation and implementation and a description of the process for acquiring land and preparing and approving Land Acquisition and Resettlement Action Plans.
16. “MEPPPC” means the Borrower’s Ministry of Environmental Protection, Physical Planning and Construction, and any successor thereto.
17. “MRDFWM” means the Borrower’s Ministry of Regional Development, Forestry and Water Management, and any successor thereto.
18. “Monitoring and Evaluation Indicators for Part 3.2 of the Project” means the agreed monitoring and evaluation indicators set forth in a letter of even date herewith to be utilized by the Borrower to measure the progress in the implementation of Part 3.2 of the Project and the degree to which the objectives thereof are being achieved.

19. “Monitoring and Evaluation Indicators for Parts 1, 2 and 3.1 of the Project” means the agreed monitoring and evaluation indicators set forth in a letter of even date herewith to be utilized by the Project Implementing Entity to measure the progress in the implementation of Parts 1, 2 and 3.1 of the Project and the degree to which the objectives thereof are being achieved.
20. “Municipality” means a local government unit established under the Borrower’s laws and eligible, in accordance with the criteria set forth in the Operational Manual (as hereinafter defined), for receiving a Sub-Loan and/or Sub-Grant (as hereinafter defined) under Parts 1, 2 and 3.1 of the Project.
21. “MWSC” means a Municipal Water and Sewerage Company duly established under the Borrower’s laws and eligible, in accordance with the criteria set forth in the Operational Manual (as hereinafter defined), for receiving a Sub-Loan and/or Sub-Grant (as hereinafter defined) for Parts 1, 2 and 3.1 of the Project;
22. “Operational Manual” means the manual adopted by HV setting forth eligibility criteria for participating Municipalities, MWSCs and Sub-projects (as hereinafter defined), the procedures for selecting, appraising, approving and supervising of Sub-projects (as hereinafter defined), and the terms and conditions of Sub-Loans and Sub-Grants (as hereinafter defined).
23. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
24. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated October 15, 2008 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
25. “Project Implementation Unit” or “PIU” means the unit within the Project Implementing Entity responsible for daily implementation of the Project.
26. “Project Implementing Entity” means *Hrvatske Vode* (Croatian Waters) or HV, the Borrower’s agency responsible for water management.
27. “Project Implementing Entity’s Legislation” means the Borrower’s Water Act (Official Gazette No. 107/95) and the Amendment thereto (Official Gazette No. 150/2005) dated December 29, 2005.
28. “Resettlement” means: (i) the involuntary (i.e., an action that may be taken without a person’s informed consent or power of choice) taking of land, including anything growing on or permanently affixed to such land, such as

buildings and crops, resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of the affected persons, and encompassing restrictions on the use of resources imposed on people living outside a park or protected area, or on those who continue living inside the park or protected area during and after Project implementation.

29. “Sub-Grant” means a grant made or proposed to be made by the Project Implementing Entity out of the proceeds of the Co-financing to a Municipality and MWSC for the purposes of carrying out a Sub-project (as hereinafter defined) under Part 1.1 of the Project and for Parts 1.2, 2 and 3.1 of the Project.
30. “Sub-Loan” means a loan made or proposed to be made by the Project Implementing Entity out of the proceeds of the Loan to a Municipality and MWSC for the purposes of carrying out a Sub-project (as hereinafter defined) under Part 1.1 of the Project and for Parts 1.2, 2 and 3.1 of the Project.
31. “Sub-Loan and/or Sub-Grant Agreement” means the agreement referred to in Section I.C.3 of the Schedule to the Project Agreement pursuant to which the Project Implementing Entity shall make a Sub-Loan and/or Sub-Grant to a Municipality and MWSC.
32. “Sub-Project” means an investment project eligible, in accordance with the criteria set forth in the Operational Manual, for financing out of the proceeds of the Loan and/or Co-financing under Part 1.1 of the Project.
33. “Subsidiary Grant” means the grant made or proposed to be made by the Borrower out of the proceeds of the Co-financing to the Project Implementing Entity for the purposes of carrying out Parts 1, 2 and 3.1 of the Project.
34. “Subsidiary Loan” means a loan made or proposed to be made by the Borrower out of the proceeds of the Loan to the Project Implementing Entity for the purposes of carrying out Parts 1, 2 and 3.1 of the Project.
35. “Subsidiary Loan and Grant Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Borrower shall make a portion of the proceeds of the Loan and Co-financing available to the Project Implementing Entity.

36. “Water Management Strategy” means the Borrower’s strategy identifying the sector investments and institutional capacity needed to meet EU directives and whose main objectives are to increase sewerage coverage and construct and upgrade the existing wastewater treatment plants to meet EU environmental standards.

**Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. Paragraph (a) of Section 2.07 is modified to read as follows:

“Section 2.07. *Refinancing Preparation Advance; Capitalizing Front-end Fee and Interest*

(a) If the Loan Agreement provides for the repayment out of the proceeds of the Loan of an advance made by the Bank or the Association (“Preparation Advance”), the Bank shall, on behalf of such Loan Party, withdraw from the Loan Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Loan Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Bank shall pay the amount so withdrawn to itself or the Association, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

2. Paragraph (l) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (l) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

3. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The term “Project Preparation Advance” is modified to read “Preparation Advance” and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing Agreement and repayable in accordance with Section 2.07.”