

CONFORMED COPY

LOAN NUMBER 3230 YU

Guarantee Agreement

(Third Highway Sector Project)

between

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated May 7, 1991

LOAN NUMBER 3230 YU

GUARANTEE AGREEMENT

AGREEMENT, dated May 7, 1991, between SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA (the Guarantor) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Guarantor, Social Fund for Arterial and Regional Roads of Bosnia and Herzegovina (the Borrower) and Federal Association of Republican and Provincial Road Organizations of Yugoslavia, Belgrade (FARP), having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to the Loan Agreement, have requested the Bank to assist in the financing of the Project;

(B) by the Loan Agreement of even date herewith among the Bank, the Borrower and FARP, the Bank has agreed to extend to the Borrower a loan in various currencies equivalent to fifty-five million dollars (\$55,000,000), on the terms and conditions set forth in the Loan Agreement, but only on condition that the Guarantor agree to guarantee the obligations of the Borrower in respect of such loan and to undertake such other obligations as provided in this Agreement; and

WHEREAS the Guarantor, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed so to guarantee such obligations of the Borrower;

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" of the Bank, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to, and Section 1.02 of, the Loan Agreement have the respective meanings therein set forth.

ARTICLE II

Guarantee

Section 2.01. The Guarantor declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, without limitation or restriction upon any of its other obligations under the Guarantee Agreement, hereby unconditionally guarantees, as primary obligor and not as surety merely, the due and punctual payment of the principal of, and interest and other charges on, the Loan, and the premium, if any, on the prepayment of the Loan, all as set forth in the Loan Agreement.

ARTICLE III

Other Covenants

Section 3.01. The Guarantor covenants that it will not take, or cause or permit to be taken, any action which would prevent or interfere with the performance by the Borrower or FARP of their obligations contained in the Loan Agreement and that, within the limits of its constitutional power, it will take or cause to be taken all reasonable action necessary or appropriate to enable the Borrower and FARP to perform such obligations.

Section 3.02. (a) The Guarantor shall, through its appropriate departments and agencies, take all measures necessary to ensure that:

- (i) all revenue for roads from the road user charge on fuel continue to be derived from an ad valorem tax on the wholesale price of fuel in order to make available at least four hundred fifty million dollars (\$450,000,000) equivalent to the road organizations in the republics and autonomous provinces on a timely basis each calendar year until Project completion to enable such road organizations to meet at a minimum their road maintenance, debt service and administrative costs included in their respective road expenditure programs for such calendar year, with any revenue remaining thereafter allocated to other roadworks; and
 - (ii) by December 31, 1992, the sales tax on diesel fuel be increased to the same level as the sales tax on gasoline fuel.
- (b) For purposes of this Section:
- (i) "road user charge on fuel" means the road user

charge included in the retail price on gasoline and diesel fuel; and

- (ii) "road maintenance" means routine road maintenance, including pavement strengthening and excluding winter maintenance.

Section 3.03. The Guarantor shall, through its appropriate departments and agencies:

(a) by September 30, 1991, review with the Bank and the republics and autonomous provinces the conclusions and recommendations of the Bank's 1989-1990 study on deregulation and development of land transport markets in Yugoslavia; and

(b) promptly thereafter, take all measures necessary to carry out or cause to be carried out the recommendations of such study in accordance with a timetable, all as shall be agreed with the Bank.

Section 3.04. The Guarantor shall, through its appropriate departments and agencies:

(a) by September 30, 1991, carry out, on the basis of objectives and terms of reference satisfactory to the Bank, a study to review the measures necessary to reduce noxious vehicle emissions;

(b) by December 31, 1991, review with the Bank the conclusions and recommendations of such study; and

(c) promptly thereafter, carry out or cause to be carried out the recommendations of such study in accordance with a timetable, all as shall be agreed with the Bank.

ARTICLE IV

Representative of the Guarantor; Addresses

Section 4.01. The Federal Secretary of Finance of the Guarantor is designated as representative of the Guarantor for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Guarantor:

Savezni Sekretarijat Za Finansije
Omladinskih Brigada 1
11070 Belgrade
Yugoslavia

Cable address:

Telex:

SAVEZNI SEKRETARIJAT 11062 YU SIV
ZA FINANSIJE
Belgrade

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 197688 (TRT),
Washington, D.C. 248423 (RCA),
64145 (WUI) or

82987 (FTCC)

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.

SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

By /s/ D. Mujezinovic
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ E. Lui
Acting Regional Vice President
Europe, Middle East and North Africa

