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CONFORMED COPY

LOAN NUMBER 7307-HR

Loan Agreement

(Social Welfare Development Project)

between

REPUBLIC OF CROATIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated July 6, 2005

LOAN NUMBER 7307-HR

LOAN AGREEMENT

AGREEMENT, dated July 6, 2005, between the REPUBLIC OF CROATIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Bank to assist in the financing of the Project;

(B) The Borrower intends to obtain from the Swedish International Development Agency (SIDA) a grant in an amount of \$2,000,000 to assist in financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and SIDA (the SIDA Grant 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 Fixed-Spread Loans" of the Bank, dated September 1, 1999 (as amended through May 1, 2004) (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 this Agreement have the respective meanings therein set forth:

(a) "Beneficiary" means community care and residential institution providers eligible to receive and administer a Grant for a Sub-project, in accordance with the criteria set forth in the ILP Guidelines;

(b) “CSWs” means Centers for Social Welfare established pursuant to the Social Welfare Act of 1997 (*Narodne Novine*, No. 73/97), as amended;

(c) “Eligible Categories” means Categories (1) through (4) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures referred to in Section 2.02 of this Agreement;

(e) “EMP” means the Environmental Management Plan, satisfactory to the Bank, prepared and adopted by the Borrower on March 18, 2005, describing the environmental mitigation, monitoring, and institutional measures under the Project;

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “Grant” means a grant made or proposed to be made to a Beneficiary out of the proceeds of the Loan for the carrying out of a Sub-project; under Part A.2 (c) of the Project;

(h) “Grant Agreement” means an agreement to be entered into between MHSW and a Beneficiary in accordance with the provisions of Part C of Schedule 5 to this Agreement;

(i) “Innovation and Learning Program”, or “ILP” means the program for provision of Grants established under Part A.2 (c) of the Project;

(j) “ILP Guidelines” means the guidelines approved by MHSW setting forth eligibility criteria and procedures for selection, appraisal and approval of Beneficiaries and Sub-projects to be financed under Part A.2 (c) of the Project, as well as the procedures for administration and monitoring of implementation of Sub-projects; as the same may be amended from time to time with the agreement of the Bank;

(k) “MHSW” means the Ministry of Health and Social Welfare of the Borrower, or any legal successor thereto;

(l) “Operational Manual” means the manual, adopted by the Borrower and satisfactory to the Bank, setting forth procedures for implementation of the Project, and which includes the EMP as its integral part, as the same may be amended from time to time with the agreement of the Bank;

(m) “Procurement Plan” means the Borrower’s procurement plan, dated April 28, 2005 covering the initial eighteen (18) month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding eighteen (18) month periods (or longer) of Project implementation;

(n) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement; and

(o) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.4 of Schedule 1 to this Agreement; and

(p) “Sub-Project” means a specific project under Part A.2 (c) of the Project which is proposed to be carried out by a Beneficiary utilizing a Grant.

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 thirty-one million Euro (EUR 31,000,000), as such amount may be converted from time to time through a currency conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for: (a) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made by a Beneficiary under a Grant to meet the reasonable cost of goods, works and services required for the Sub-project in respect of which the withdrawal from the Loan Account is requested; and (b) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan; and (c) any premium in respect of an Interest Rate Cup or Interest Rate Collar payable by the Borrower in accordance with Section 4.04 (c) of the General Conditions.

Section 2.03. The Closing Date shall be September 30, 2009 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 front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. Such fee shall be payable not later than sixty (60) days after the Effective Date.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty-five one-hundredths of one per cent (0.85%) from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy-five one-hundredths of one per cent (0.75%) thereafter.

Section 2.06. 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 the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and commitment charges shall be payable semiannually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

Section 2.09. (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;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Variable Rate.

(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 Section 2.01 (7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

(c) Promptly after the Execution Date for an Interest Rate Cap or Interest Rate Collar in respect of which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself that amounts required to pay any premium payable in accordance with Section 4.04 (c) of the General Conditions up to the amount allocated from time to time for such purpose in the table in paragraph 1 of Schedule 1 to this Agreement.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall, through MHSW, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Bank shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of works, goods 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 this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (12) months after the date of the preceding Procurement Plan, for the Bank’s approval.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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

(b) Afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall, through MHSW, maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards, acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall, through MHSW:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed by the Bank) audited, in accordance with consistently applied auditing standards acceptable to the Bank, 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 (6) months after the end of each such year or such other period agreed to by the Bank, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year or such other period agreed to by the Bank, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Bank; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of FMRs or statements of expenditure, the Borrower shall, through MSHW:

- (i) retain, until at least one year after the Bank has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Bank's representatives to examine such records; and
- (iii) ensure that such statements of expenditures are included in the audit for each fiscal year (or other period agreed to by the Bank), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 5 to this Agreement, the Borrower shall, through MHSW, prepare and furnish to the Bank a Financial Monitoring Report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Bank not later than thirty (30) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than thirty (30) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) The SIDA Grant Agreement shall have failed to become effective by December 31, 2005, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

- (b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the SIDA Grant shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the SIDA Grant Agreement.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions:

(a) The Borrower has: (i) established working groups for each respective Part of the Project; and (ii) appointed a Project Manager, who shall be responsible for managing inputs from MHSW's working groups for developing terms of reference, contract administration, disbursement of funds and financial management, procurement and monitoring; and

(b) The Borrower has approved an Operational Manual, satisfactory to the Bank.

Section 6.02. The date one-hundred twenty (120) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance
Ministry of Finance
Katančeva 5
Zagreb
Republic of Croatia

Telex:

862-21215
862-21833

Facsimile:

(385-1)4922-598

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:	Facsimile:
INTBAFRAD 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 Zagreb, Republic of Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By /s/ Ivan Šuker
Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Anand Seth
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated Expressed in Euro</u>	<u>% of Expenditures to be financed</u>
(1) Works	17,000,000	82%
(2) Goods	8,000,000	100% of foreign expenditures, 100% of local expenditures (ex factory and 82% of local costs for other items procured locally
(3) Consultant's Services, including audit for the Project	1,500,000	100% of foreign expenditures, and 75% of local expenditures
(4) Training	500,000	100%
(5) Grants under Part A.2(c) of the Project	4,000,000	100%
(6) Premia for Interest Rate Caps and Interest Rate Collars	_____	Amount due under Section 2.09 (c) of this Agreement
TOTAL	<u>31,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “training” means expenditures for training events, including the cost of facilities, materials and supplies, translation costs and participants’ per diem, as such costs are agreed upon with the Bank.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) payments made under Categories (1) through (5) set forth in the table in paragraph 1 to this Schedule until the fee referred to in Section 2.04 of the Agreement has been paid; and (c) payments for expenditures under Category (5) set forth in the table in paragraph 1 of this Schedule until the ILP Guidelines, satisfactory to the Bank, have been adopted.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts not exceeding EUR 500,000 equivalent; (ii) services provided by consulting firms under contracts not exceeding EUR 160,000 equivalent; (iii) services provided by individual consultants under contracts not exceeding EUR 25,000 equivalent; (iv) works; (v) training; and (vi) Grants, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the FMR and any other information as the Bank shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Euro a special deposit account in a bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachments.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made as follows:

(a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Bank determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not

justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex A
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of EUR 3,100,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 2 of this Annex.

2. 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 in the aggregate do not exceed the Authorized Allocation. 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.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposit into the Special Account at such intervals as the Bank shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.

3. The Bank shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Loan minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions shall be equal to or less than the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan 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.

**Annex B
to
SCHEDULE 1**

**Operation of Special Account
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objective of the Project is to strengthen the quality, targeting and administration of social benefits and services to the Borrower's population.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

Part A: Improving Social Services Delivery

1. Provision of advisory services and training to:
 - (a) develop the organization of social services planning and delivery, including defining responsibilities for the CSWs and Methodological Centers;
 - (b) develop a master plan for a new and more varied mix of social services;
 - (c) design and develop a concept for One Stop Offices that will establish one initial point of contact for clients for most or all social service programs;
 - (d) analyze best practices and design and develop a concept of Methodological Centers;
 - (e) design and conduct a baseline study of the current demand and supply of social services; and
 - (f) carrying out other studies or assessments required for improved planning and delivery of social services at the county level; and provision of technical assistance and training to MHSW for Project implementation.
2. Support for the implementation of the Borrower's policy for qualitative and cost-effective service delivery through:
 - (a) assessment of the costs for residential and community-based services; development of the CSW staff capacity to effectively procure social services; developing a new financing mechanism of social services; and development of a program for performance based budgeting;

(b) improvement of existing standards and monitoring mechanism for delivery of social services; and

(c) provision of Grants, under the Innovation and Learning Program, for financing of start up costs of innovative social service Sub-projects.

Part B: Strengthening of the Social Welfare Management Information System

1. Implementation of a new administrative organization in CSWs.
2. Introduction of a management information system at MHSW and its subsidiary agencies.

Part C: Upgrading of Social Services Facilities

1. Upgrading of selected residential social service institutions to ensure that they meet the minimum public health standards.
2. Construction and upgrading of CSWs.

* * *

The Project is expected to be completed by March 31, 2009.

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 shall 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: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15th and November 15th beginning November 15, 2010, through May 15, 2020	5%

2. If the proceeds of the Loan shall not 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 as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made 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 shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts 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) Withdrawals made 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 3, if at any time the Bank shall adopt 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 principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be 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 said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 4

Procurement

Section I. General

A. All goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants’ services shall be procured in accordance with Sections I and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Bank of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Service (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts for goods shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than EUR 500,000 equivalent per contract and all works, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions set forth in (a) through (h) of this paragraph. The Bank may, upon notice to the Borrower, increase the above threshold for goods to be procured on the basis of the National Competitive Bidding.

(a) 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 MHSW website, allowing a minimum of thirty (30) days for the preparation and submission of bids.

(b) Assessment of Bidders' Qualifications

When pre-qualification shall be required for large or complex works contracts, invitations to pre-qualify for bidding shall be advertised in the Borrower's Official Gazette and at least one widely circulated national daily newspaper 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.

(c) 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.

(d) Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, as defined in the paragraph 1.1 of the Guidelines, which shall contain draft contract and conditions of contract acceptable to the Bank.

(e) Bid Submission, Opening and Evaluation

- (i) 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.

- (ii) 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.
- (iii) 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.
- (iv) 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.
- (v) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.
- (vi) No preference shall apply under National Competitive Bidding.

(f) Price Adjustment

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

(g) Rejection of All Bids

- (i) All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.
- (ii) When the number of bids received is less than two, re-bidding shall not be carried out without the Bank's prior concurrence.

(h) Securities

Bid securities should not exceed 2% (two percent) of the estimated cost of the contract; and performance securities -- not more than 10% (ten percent). 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.

2. Shopping. Goods and works estimated to cost less than EUR 60,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines, including as a form of such shopping, the electronic bidding carried out by the Borrower's Central State Administrative Office for E-Croatia (*Sredisnji drzavni ured za e-Hrvatsku*) for procurement of computer and standard IT equipment, provided that technical specifications for said equipment shall be subject to the prior review by the Bank in accordance with the procedures set forth in Appendix I to the Guidelines.

3. Direct Contracting. Goods and works which the Bank agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Community Participation. Goods, works and services under Sub-projects to be financed under Part A.2(c) of the Project, shall be procured in accordance with the provisions of paragraph 3.17 of the Guidelines and procedures set forth in the ILP Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than EUR 200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Bank agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a Fixed Budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

3. Least-cost Selection. Services for assignments which the Bank agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than EUR 160,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

5. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

6. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Bank.

Section IV. 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.

SCHEDULE 5

Implementation Program

Part A: Project Management

1. The Borrower shall assign to MHSW the responsibility for Project management and coordination, including the overseeing the implementation by working groups of their respective Parts of the Project.
2. The Borrower shall, during duration of the Project: (a) maintain working groups within MHSW for each respective Part of the Project; and (b) maintain a Project Manager who shall be responsible for managing inputs from MHSW's working groups for developing terms of reference for technical assistance and training, contract administration, disbursement of funds and financial management, procurement and monitoring.
3. The Borrower shall carry out the Project in accordance with the provisions of the Operational Manual, including provisions of EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual without prior approval of the Bank.

Part B: Reporting and Monitoring

1. The Borrower shall, through MHSW
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Bank, the carrying out 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 September 30, 2007 a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) of this paragraph, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Bank, by December 31, 2007 or such later date as the Bank shall request, the report referred to in sub-paragraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion 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.

2. The Borrower shall provide to the Bank, by September 30 of each year throughout the execution of the Project, commencing from September 30, 2006, an annual report on the progress of Project implementation, of such scope and such detail as the Bank shall reasonably request, including a draft annual Project plan for the following year.

Part C: Innovation and Learning Program

1. Not later than December 31, 2005, the Borrower, through MHSW, shall establish a Grant Committee and such Committee shall be responsible for selection, appraisal and monitoring of Sub-projects under Part A.2 (c) of the Project.

2. For the purposes of carrying out Part A.2 (c) of the Project, the Borrower, through MHSW, shall ensure that:

(a) a Grant Committee shall select Sub-projects for financing from the proceeds of the Loan in accordance with criteria and selection procedures set forth in the ILP Guidelines;

(b) MHSW shall provide financing, on a grant basis, for approved Sub-projects pursuant to a standard agreement, in a format and substance acceptable to the Borrower and the Bank (the Grant Agreement), to be entered into between MHSW and a Beneficiary, and such Grant Agreement shall include, *inter alia*:

- (i) a description of the Sub-project, together with an estimate of the cost thereof;
- (ii) the amount to be provided to a Beneficiary under a Grant Agreement and a disbursement schedule;
- (iii) the implementation schedule for the Sub-project;
- (iv) an amount of co-financing to be provided for the Sub-project by the Beneficiary and/or evaluation of in-kind contribution to the Sub-project;

- (v) the obligation of the Beneficiary to procure works, goods and services to be financed under the Grant Agreement in accordance with the procedures set forth in the ILP Guidelines and to comply with the EMP provisions;
- (vi) the obligation of the Beneficiary to report to MHSW on the progress of Sub-project implementation and to enable representatives of MHSW and of the Bank, if the Bank shall so request, to visit the facilities, construction sites or other activities to be financed under the Grant Agreement;
- (vii) the obligation of the Beneficiary to maintain records and accounts for expenditures incurred under the Sub-project and financed from the proceeds of the Loan made available to the Beneficiary under the Grant Agreement and to submit to MHSW at regular intervals statements with respect to such records and accounts; and
- (viii) the right of MHSW to suspend, cancel or request a refund of the Grant or a portion thereof in case of the failure of the Beneficiary to perform any of its obligations under the Grant Agreement.