

CONFORMED COPY

LOAN NUMBER 4439 MK

Loan Agreement

(Transport Sector Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA

(The Borrower)

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

(The Bank)

Dated May 24, 1999

LOAN NUMBER 4439 MK

LOAN AGREEMENT

AGREEMENT, dated May 24, 1999, between the BORROWER and 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) Parts A, B, C and D of the Project will be carried out by the Fund for National and Regional Roads (FNRR) with the Borrower's assistance and as part of such assistance, the Borrower will make a portion of the proceeds of the loan provided for in Article II of this Agreement (the Loan) available to FNRR, as set forth in this Agreement;

(C) Parts E and F of the Project will be carried out by Macedonian Railways (MR) with the Borrower's assistance and as part of such assistance, the Borrower will make a portion of the proceeds of the Loan available to MR, as set forth in this 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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through December 2, 1997) (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 and the following additional terms have the following meanings:

(a) "Action Plan for Railway Restructuring" means the Borrower's action plan for railway restructuring dated November 6, 1998, as the same may be amended from time to time with the agreement of the Bank;

(b) "Euro" means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;

(c) "FNRR" each means the Fund for National and Regional Roads established as a public entity on June 6, 1996 pursuant to the Borrower's Law for Public Roads;

(d) "FNRR Project Agreement" means the agreement between the Bank and FNRR of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the FNRR Project Agreement;

(e) "FNRR Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and FNRR pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the FNRR Subsidiary Loan Agreement;

(f) "Implementation Plan" means the Project Implementation Plan dated April 30, 1998, as the same may be amended from time to time;

(g) "MR" means Macedonian Railways, established as a public enterprise by the Borrower's Decision No. 21-4064/1 on November 22, 1989;

(h) "MR Project Agreement" means the agreement between the Bank and MR of even date herewith, as the same may be amended from time to time; and such term includes all schedules and agreements supplemental to the MR Project Agreement;

(i) "MR Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and MR pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time; and such term includes all schedules to the MR Subsidiary Loan Agreement;

(j) "Pavement Management System" means the pavement management system established in the FNRR for the purpose of evaluating alternative maintenance interventions;

(k) "PCU" means the Project Coordination Unit to be established within FNRR pursuant to Section 6.01 (a) of this Agreement;

(l) "Project Agreement" means, collectively, the FNRR Project Agreement and the MR Project Agreement;

(m) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(n) "Steering Committee" means the steering committee to be established by the Borrower for Parts E and F of the Project pursuant to Section 6.01 (c) of this Agreement; and

(o) "Subsidiary Loan Agreement" means, collectively, the FNRR Subsidiary Loan Agreement and the MR Subsidiary Loan Agreement.

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 twenty seven million Euro (Euro 27,000,000).

Section 2.02. (a) The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement for 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 described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Loan.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro special deposit accounts in a commercial bank on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2002 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 fee in an amount equal to one percent (1%) of the amount of the Loan. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

(i) "Interest Period" means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.

(ii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.

(iii) "LIBOR Total Spread" means, for each Interest Period: (A) three fourths of one percent (3/4 of 1%); (B) minus (or plus) the weighted average margin, for such Interest Period, below (or above) the London interbank offered rates, or other reference rates, for six-month deposits, in respect of the Bank's outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan; as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to

apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to the Loan upon not less than six (6) months' notice to the Borrower of the new basis. The basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to the Loan.

Section 2.07. Interest and other charges shall be payable semiannually on June 15 and December 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.

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, without any limitation or restriction upon any of its other obligations under the Loan Agreement, shall cause each of FNRR and MR to perform in accordance with the provisions of their respective Project Agreements all the obligations of FNRR and MR therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FNRR and MR to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend a portion of the proceeds of the Loan allocated from time to time to: (i) Categories (1), (3) and (4) of the table in Schedule 1 to this Agreement to FNRR under a subsidiary loan agreement to be entered into between the Borrower and FNRR (the FNRR Subsidiary Loan Agreement); and (ii) Categories (2) and (5) of the table in Schedule 1 to this Agreement to MR under a subsidiary loan agreement to be entered into between the Borrower and MR (the MR Subsidiary Loan Agreement).

(c) Each Subsidiary Loan Agreement shall contain terms and conditions which shall have been approved by the Bank and which shall include the following principal terms and conditions: (i) each Subsidiary Loan to FNRR and MR shall be denominated in Euro and shall be repayable in twenty years, including a five-year grace period; (ii) FNRR and MR shall pay interest on the principal amount of the Subsidiary Loan at a rate per annum equal to the rate specified in Section 2.06 of this Agreement; and (iii) the principal of the Subsidiary Loan repayable by FNRR and MR, respectively, shall be equivalent, in Euro, to the value of currency or currencies withdrawn from the Loan Account on account of expenditures under the Project, such equivalence to be determined as of the date or respective dates of repayment.

(d) The Borrower shall exercise its rights under each Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreements or any provision thereof.

(e) Without limitation upon the generality of paragraph (a) of this Section, the Borrower shall cause: (i) the Project to be carried out in accordance with the Implementation Plan; (ii) FNRR to maintain the Project Coordination Unit with functions and responsibilities acceptable to the Bank and with staff whose qualifications, experience and terms of reference are satisfactory to the Bank, to coordinate the carrying out of activities under the Project. Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.03. For the purposes of Section 9.08 of the General Conditions and without limitation thereto, the Borrower shall cause the PCU to:

(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.

Section 3.04. The Bank and the Borrower hereby agree that the obligations set forth in Sections 9.04, 9.05, 9.06, 9.07, 9.08 and 9.09 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively), in respect of Parts A, B, C and D of the Project, shall be carried out by FNRR and, in respect of Parts E and F of the Project, shall be carried out by MR, pursuant to Section 2.03 of each Project Agreement.

Section 3.05. The Borrower shall cause the PCU to:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory 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, 2000, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 1, 2000, or such later date as the Bank shall request, the report referred to in subparagraph (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.

Section 3.06. The Borrower, through the PCU, shall submit to the Bank by June 15 and December 15 in each year during Project implementation:

(i) a progress report integrating the results of the monitoring and evaluation activities performed pursuant to Section 3.05 (a) of this Agreement; and

(ii) a workplan for implementation of the Project for the next six month period.

Section 3.07. The Borrower shall: (a) implement, and shall cause MR to implement, the Action Plan for Railway Restructuring with due diligence and efficiency and in a manner designed to achieve the objectives thereof; and (b) maintain the Steering Committee with functions, responsibilities and composition acceptable to the Bank to coordinate implementation of the Action Plan for Railway Restructuring.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made; and

(iii) enable the Bank's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Bank;

(ii) furnish to the Bank as soon as available, but in any case not later than six months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and

(iii) furnish to the Bank such other information concerning said records and accounts and the audit thereof as the Bank shall from time to time reasonably request.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional event is specified, namely, that the Action Plan for Railway Restructuring shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Borrower to perform any of its obligations under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of 120 days after notice thereof shall have been given by the Bank to the Borrower.

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 PCU has been established and staff appointed with qualifications, experience and terms of reference satisfactory to the Bank;

(b) the Subsidiary Loan Agreements have been executed on behalf of the Borrower and each of FNRR and MR;

(c) the Steering Committee has been established by the Borrower with representatives from the Borrower's Ministry of Finance, Ministry of Transport and Communication and MR; and

(d) a financial management system satisfactory to the Bank has been developed.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Bank:

(a) that the respective Project Agreements have been duly authorized or ratified by FNRR and MR and are legally binding upon FNRR and MR in accordance with their terms; and

(b) that the Subsidiary Loan Agreements have been duly authorized or ratified by the parties thereto and are legally binding upon the said parties in accordance with their terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE 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:

Ministry of Finance
Dame Gruev 14
91000 Skopje

For the Bank:

International Bank for
Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

BORROWER

By /s/ Ljubica Acevska

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Johannes Linn

Regional Vice President
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

1. 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:

Category	Amount of the Loan Allocated (Expressed in Euro)	% of Expenditures to be financed
(1) Civil works for Parts A and B of the Loan	13,090,000	65%
(2) Equipment, goods and spare parts for Part E of the Project	8,700,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(3) Equipment for Part D of the Project	980,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally
(4) Consultants' services and training under Parts A, B and C of the Project	520,000	100%
(5) Consultants' services and training under Parts E and F of the Project	360,000	100%
(6) Fee	270,000	Amount due under Section 2. 04 of this Agreement
(7) Unallocated for		
(a) Parts A, B, C and D of the Project	2,220,000	
(b) Parts E and F of the Project	860,000	
TOTAL	27,000,000	

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; and

(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.

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, except that withdrawals, in an aggregate amount not exceeding an amount equal to Euro 2,700,000 may be made on account of payments made for expenditures

before that date but after April 30, 1998; and (b) payments made for expenditures under Category (2), until consultants, satisfactory to the Bank shall have been appointed to assist the Borrower in implementing the Action Plan for Railway Restructuring.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for expenditures for: (i) works under contracts costing less than \$1,000,000 equivalent; (ii) goods under contracts costing less than \$200,000 equivalent; (iii) services under contracts with consulting firms costing less than \$100,000 equivalent each; and (iv) services and training under contracts with individual consultants costing less than \$50,000 equivalent each, under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to improve the efficiency of the road and railway transport systems.

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: Improvement of the Tetovo-Grupcin Highway

Carrying out of civil works to widen about 15 kilometers of the highway from Tetovo to Grupcin.

Part B: Pilot Road Maintenance

Carrying out of civil works and provision of technical assistance for carrying out pilot projects to test alternative options for road maintenance.

Part C: Technical Assistance and Training to FNRR

Provision of technical assistance and training to FNRR to: (i) improve road investment planning; (ii) design and implement a bridge management system; and (iii) carry out a study on the adequacy of road user charges and develop a methodology for the future monitoring of user charges.

Part D: Equipment for FNRR

Provision of equipment to FNRR to gather data on road conditions in order to improve the accuracy of the Pavement Management System.

Part E: Equipment for Macedonian Railways

Provision of equipment to MR to upgrade its communications system including completion of a centralized traffic control system; provision of a radio dispatcher system for the rail network; and provision of an informatics system for MR.

Part F: Restructuring Macedonian Railways

Provision of technical assistance and training to assist in the implementation of the Action Plan for Railway Restructuring including: (i) improving the organization, management, planning, financial controls and accountability of the railways; and (ii) conducting a management training program in working methods and marketing principles.

* * *

The Project is expected to be completed by December 31, 2001.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in Euro)*
June 15, 2004	670,000
December 15, 2004	685,000
June 15, 2005	700,000
December 15, 2005	710,000
June 15, 2006	725,000
December 15, 2006	740,000
June 15, 2007	755,000
December 15, 2007	770,000
June 15, 2008	785,000
December 15, 2008	800,000
June 15, 2009	815,000
December 15, 2009	830,000
June 15, 2010	845,000
December 15, 2010	860,000
June 15, 2011	880,000
December 15, 2011	895,000
June 15, 2012	915,000
December 15, 2012	930,000
June 15, 2013	950,000
December 15, 2013	970,000
June 15, 2014	985,000
December 15, 2014	1,005,000
June 15, 2015	1,025,000
December 15, 2015	1,045,000
June 15, 2016	1,065,000
December 15, 2016	1,085,000
June 15, 2017	1,110,000
December 15, 2017	1,130,000
June 15, 2018	1,150,000
December 15, 2018	1,170,000
TOTAL	27,000,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Sections 4.04 (d) of the General Conditions.

SCHEDULE 4

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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" published by the Bank in January 1995 and revised in January and August 1996 and September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost

\$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(c) Pre-qualification

Bidders for works estimated to cost \$1,000,000 equivalent or more per contract shall be pre-qualified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

Part C: Other Procurement Procedures

1. International Shopping

Equipment, goods and spare parts estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract to be procured in accordance with the procedures referred to in Part B of this Section estimated to cost the equivalent of \$1,000,000 or more for works and \$200,000 or more for goods, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January and September 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for the training of FNRR and MR staff may be procured under contracts awarded in accordance with provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A, B, C and D of the Project and Categories (2) and (5) set forth in said table in respect of Parts E and F of the Project;

(b) the term "eligible expenditures" means expenditures 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 allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to Euro 1,400,000 in respect of the Special Account for Parts A, B, C and D of the Project and an amount equivalent to Euro 900,000 in respect of the Special Account for Parts E and F thereof, to be withdrawn from the Loan Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to Euro 700,000 in respect of the Special Account for Parts A, B, C and D of the Project and an amount equivalent to Euro 400,000 in respect of the

Special Account for Parts E and F thereof, until: (i) in respect of the Special Account for Parts A, B, C and D of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Categories (1), (3) and (4) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts A, B, C and D of the Project shall be equal to or exceed the equivalent of Euro 3,000,000; and (ii) in respect of the Special Account for Parts E and F of the Project, the aggregate amount of withdrawals from the Loan Account allocated to Categories (2) and (5) plus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions for Parts E and F of the Project shall be equal to or exceed the equivalent of Euro 2,000,000.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective 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 respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Bank requests for deposits into the respective Special Account at such intervals as the Bank shall specify.

(ii) 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 para graph 4 of this Schedule 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 respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Accounts;

(c) if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories 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 respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Bank shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) deposit into the respective Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Bank shall otherwise agree, no further deposit by the Bank into any 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 shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, 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 Accounts.

(d) Refunds to the Bank made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

