

CONFORMED COPY

LOAN NUMBER 4351 HR

Loan Agreement

(Reconstruction Project for Eastern Slavonia, Baranja and Western Srijem)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated September 8, 1998

LOAN NUMBER 4351 HR

LOAN AGREEMENT

AGREEMENT, dated September 8, 1998, 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, has requested the Bank to assist in the financing of the Project;

(B) the Project will be carried out by Hrvatske Vode (HV) with the Borrower's assistance and as part of such assistance, the Borrower will make available to HV the proceeds of the Loan as provided in this Agreement; and

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 and in the Project Agreement of even date herewith between the Bank and HV;

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) "Croatian Demining Council" means the Borrower's agency established pursuant to the Government's Resolution dated February 19, 1998 (Official Gazette, No. 24/98);

(b) "Deutsche Marks" and "DEM" each means the lawful currency of the Federal Republic of Germany, but if such currency shall be replaced with the "Euro", then "Deutsche Marks" and "DEM" shall be replaced by "Euro" for the purposes of the Loan, at the ratio in effect as of the date of such replacement;

(c) "HV" means Hrvatske Vode (the Croatian Water Management Enterprise) established pursuant to the Water Act of 1995 (Official Gazette, No. 107/95);

(d) "Kopacki Rit Nature Park" means the Public Institution "Kopacki Rit Nature Park" established pursuant to the By-Law "On Establishment of the Public Institution Kopacki Rit Nature Park" of 1997 (Official Gazette, No. 96/97);

(e) "Mines" means landmines and includes explosive items such as bombs, booby traps, munitions and exploded ordnance of any kind;

(f) "Project Agreement" means the agreement between the Bank and HV 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 Project Agreement;

(g) "Project Unit" means the unit within the Kopacki Rit Nature Park referred to in Section 3.05 (a) of this Agreement;

(h) "Quality Assurance Unit" means the unit referred to in Section 3.03(a) of this Agreement which has been established within the Borrower's Ministry of Interior, or any successor thereto;

(i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement; and

(j) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and HV 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 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 seventy-four million Deutsche Marks (DEM 74,000,000).

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 Deutsche Marks a special deposit account 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 Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2003, 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 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 2.05. (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) "Interest Payment Date" means any date specified in Section 2.06 of this Agreement.

(iii) "LIBOR Base Rate" means, for each Interest Period, the London interbank offered rate for six-month deposits in Deutsche Marks 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.

(iv) "LIBOR Total Spread" means, for each Interest Period: (A) one half of one percent (1/2 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 2.05, 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 2.06. Interest and other charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. 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 as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its obligations under the Loan Agreement, shall cause HV to perform, in accordance with the provisions of the Project Agreement, all

the obligations of HV 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 HV 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 the proceeds of the Loan to HV (the Subsidiary Loan for the purposes of this paragraph) under a Subsidiary Loan Agreement to be entered into between the Borrower and HV under terms and conditions which shall have been approved by the Bank and which shall include, without limitation, the following:

(i) the principal amount of the Subsidiary Loan shall be denominated in Deutsche Marks and shall be repaid by HV to the Borrower in Deutsche Marks in equal semi-annual installments over fifteen years, including a grace period of five years;

(ii) an interest shall be charged on the outstanding balance of the Subsidiary Loan at a rate equivalent to the rate paid by the Borrower to the Bank in accordance with the provisions of Section 2.05 of this Agreement; and

(iii) a commitment charge shall be charged on the principal amount of the Subsidiary Loan not withdrawn from time to time at a rate equivalent to the rate established in Section 2.04 of this Agreement, minus any waiver.

(c) The Borrower shall exercise its rights under the 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 Agreement or any provision thereof.

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 1 to the Project Agreement.

Section 3.03. For the purposes of carrying out Part C of the Project, the Borrower shall:

(a) maintain, with adequate staff and resources, the Quality Assurance Unit which shall be responsible for: (i) setting the standards for Mine clearing works; (ii) reviewing the standard operating procedures and safety regulations of Mine clearing agencies; and (iii) conducting quality assurance tests to ensure compliance of Mine clearing agencies with accepted international standards for humanitarian mine clearance;

(b) ensure that all Mine clearance activities are carried out and all Mines cleared under the Project are promptly destroyed in accordance with appropriate safety standards and guidelines; and

(c) cause the Croatian Demining Council to provide all necessary assistance to HV required for implementation of Part C of the Project.

Section 3.04. 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.

Section 3.05. For the purposes of carrying out Part D of the Project, the Borrower shall cause the Kopacki Rit Nature Park to:

(a) maintain the Project Unit during the execution of the Project, with adequate staff and resources and terms of reference satisfactory to the Bank, and to cooperate with HV in the implementation of Part D of the Project.

(b) submit to HV before November 30 of each calendar year during the execution of the Project, an annual work program for the next calendar year and shall review these programs with HV before implementing them; and

(c) submit to HV not later than April 30 of each calendar year during the execution of the Project, an annual report describing the progress achieved in carrying out of Part D of the Project during the preceding year.

Section 3.06. 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) shall be carried out by HV pursuant to Section 2.03 of the Project Agreement.

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 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) of this Section including those for the Special Account 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 (6) 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; 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 events are specified:

(a) HV shall have failed to perform any of its obligations under the Project Agreement;

(b) as a result of events which have occurred after the date of the Loan Agreement, an extraordinary situation shall have arisen which shall make it improbable that HV will be able to perform its obligations under the Project Agreement; and

(c) the development activity for which the land or facilities has or have been cleared of Mines under the Project is, in the sole opinion of the Bank, jeopardized by laying down new Mines anywhere in the territory of the Borrower.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional event is specified, namely, that any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank or the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and HV.

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 Project Agreement has been duly authorized or ratified by HV, and is legally binding upon HV in accordance with its terms; and (b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and HV and is legally binding upon the Borrower and HV in accordance with its 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
Katanciceva 5
41000 Zagreb
Republic of Croatia

Telex:

862-21215
862-21833

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.

REPUBLIC OF CROATIA

By /s/ Miomir Zuzul

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Arntraud Hartmann

Acting 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 DEM Equivalent)	% of Expenditures to be Financed
(1) Works	43,710,000	60%
(2) Consultants' services and Training	7,290,000	100%
(3) Goods except for Part D.3	14,570,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 85% of local expenditures for goods procured locally
(4) Unallocated	8,430,000	
TOTAL	74,000,000	

2. For the purpose 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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed DEM 7,400,000 may be made on account of payments made for expenditures before that date but after June 30, 1997.

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 and works under contracts costing less than \$1,000,000 equivalent; (ii) services provided by consulting firms under contracts costing less than \$100,000 equivalent; (iii) services provided by individual consultants under contracts costing less than \$50,000 equivalent; and (iv) training expenditures, all 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: (i) to repair and reconstruct critically needed water sector infrastructure to restart the local economy in the regions of Eastern Slavonia, Baranja and Western Srijem; (ii) to protect Kopacki Rit nature reserve from the possible adverse impact of adjacent agricultural activities; and (iii) clear Mines in the Project areas.

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: Flood Control and Drainage

1. Repair of dikes to restore a safe level of flood protection for the Baranja area, including repairs of the Drava River-bank protection system.
2. Repair of pumping stations needed to evacuate excess water from the catchment area of the drainage network in Baranja and Eastern Slavonia.
3. Cleaning the primary and secondary canals required to efficiently drain water from agricultural fields in Baranja and Eastern Slavonia.
4. Provision of operation and maintenance equipment for maintaining dikes and drainage canals in Baranja and Eastern Slavonia.

Part B: Wastewater Management

1. Reconstruction of the municipal wastewater treatment plant in Vinkovci.
2. Extension of the wastewater collector system.

Part C: Mine Clearing

Clearance of Mines in the areas to be rehabilitated under the Project.

Part D: Nature Protection

1. Preparation of a management plan and monitoring program for the Kopacki Rit nature reserve and provision of water quality monitoring equipment.
2. Provision of technical assistance to strengthen the institutional capacity of the State Directorate for Nature and Environmental Protection and of the Kopacki Rit Nature Park.
3. Provision of boats, all-terrain vehicles, a geographic information system (GIS), and supervisory equipment for the Kopacki Rit Nature Park.
4. Rehabilitation of the blinds (observation areas), fishponds, park management facilities and other infrastructure necessary to provide long-term environmental protection for Kopacki Rit nature reserve.

* * *

The Project is expected to be completed by December 31, 2002.

SCHEDULE 3

Amortization Schedule

Date Payment Due	Payment of Principal (expressed in DEMs)*
On each January 15 and July 15 beginning January 15, 2004 through July 15, 2013	3,700,000.00

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

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) and (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods 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 equal to DEM 5,500,000 to be withdrawn from the Loan Account and deposited into the Special Account 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 DEM 1,800,000 until the aggregate amount of withdrawals from the Loan Account plus 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 exceeds the equivalent

of DEM 7,300,000.

2. Payments out of the 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 Special Account has been duly opened, 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 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the 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 paragraph 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 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. 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 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 that 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 Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories for that Special Account 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.

