

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7283 HR

Loan Agreement

(Social and Economic Recovery Project)

between

REPUBLIC OF CROATIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Public Disclosure Authorized

Dated May 2, 2005



LOAN NUMBER 7283 HR

LOAN AGREEMENT

AGREEMENT, dated May 2, 2005, between the REPUBLIC OF CROATIA (the Borrower) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank).

WHEREAS 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;

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) with the modification set forth below (the General Conditions) constitute an integral part of this Agreement:

"Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) "ASSC" means Areas of Special State Concern, as such areas are defined in the consolidated Law on Areas of Special State Concern published in the Official Gazette on February 20, 2003 (*Narodne Novine*, NO. 26/03);

(b) "Beneficiary" means local self governments, community-based organizations, non-governmental organizations, small and medium enterprises, and cooperatives eligible to receive and administer a Grant (as defined hereinafter) for a Sub-project (as defined hereinafter), in accordance with the criteria set forth in the Operational Manual (as defined hereinafter);

(c) "CROMAC" means the Croatian Mine Action Center established pursuant to the Borrower's Government Regulation dated February 19, 1998;

(d) “EMP” means the Environmental Management Plan, satisfactory to the Bank, prepared and adopted by the Borrower on October 20, 2004, describing the environmental mitigation, monitoring, and institutional measures under the Project;

(e) “Eligible Categories” means Categories (1), (2), (3), (4) and (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(f) “Eligible Expenditures” means expenditures in respect 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;

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

(h) “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;

(i) “Grant Agreement” means an agreement to be entered into between the MSTTD (as defined hereinafter) and a Beneficiary in accordance with the provisions of Part C.2 (b) of Schedule 5 to this Agreement;

(j) “Land Acquisition and Resettlement Policy Framework” means the policy document approved by the MSTTD (as defined hereinafter) on October 20, 2004;

(k) “Land Acquisition Plan” means a plan to be developed for a Sub-project which includes acquisition of land for proposed investments, and which is prepared in accordance with the provisions of the Land Acquisition and Resettlement Policy Framework;

(l) “MSTTD” means the Borrower’s Ministry of Sea, Tourism, Transport and Development, or any legal successor thereto;

(m) “Mines” means land mines and includes explosive items such as bombs, booby traps, munitions and exploded ordnance of any kind;

(n) “Operational Manual” means the manual, satisfactory to the Bank, adopted by the Project Steering Committee (as defined hereinafter), setting forth: (i) procedures for implementation of the Project; and (ii) eligibility criteria and procedures for selection, appraisal and approval of Beneficiaries and Sub-projects (as defined hereinafter) to be financed under Part A 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 agreement of the Bank;

(o) "PCU" means the Project Coordination Unit established under the MSTTD;

(p) "Procurement Plan" means the Borrower's procurement plan, dated February 15, 2005 covering the initial 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 18 month periods (or longer) of Project implementation;

(q) "RCUs" means the Regional Coordination Units of the Project;

(r) "Resettlement Plan" means a plan to be developed for a Sub-project which involves reallocation of residents, and which is prepared in accordance with the provisions of the Land Acquisition and Resettlement Policy Framework;

(s) "Special Account" means the account referred to in Part B of Schedule 1 of this Agreement; and

(t) "Steering Committee" means the Borrower's committee to be established in accordance with paragraph 2 of Schedule 5 to this 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 thirty five million Euro (€35,000,000), 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: (i) amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower on account of withdrawals made in favour of 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; (ii) expenditures made (or, if the Bank shall so agree, to be made) 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; and (iii) any premium in respect of an Interest Rate Cap 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 June 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 carry out the Project through the MSTTD with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental 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 goods, works and consultants' and technical 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 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 the Borrower, 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, information on the planned future development 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 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:

- (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 five 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) The Borrower shall:

- (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 financial records (contracts, orders, invoices, bills, receipts and other documents);
- (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 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 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 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 event is specified, namely, 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.

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 PCU shall have been established with terms of reference, staffing and other resources satisfactory to the Bank.

Section 6.02. The date one hundred and 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
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:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(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 Sisak, Croatia, as of the day and year first above written.

REPUBLIC OF CROATIA

By /s/ Yvan Suker

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

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:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Euro)</u>	<u>% of Expenditures to be financed</u>
(1) Grants under Part A of the Project	23,000,000	100%
(2) Goods	850,000	100% of foreign expenditures, 100% of local expenditures (ex factory) and 85% of local costs for other items procured locally
(3) Consultant's Services And Training	2,600,000	100% of foreign expenditures, and 75% of local expenditures
(4) Technical Services	7,500,000	100% of foreign expenditures, and 85% of local expenditures
(5) Operating Costs	500,000	100%
(6) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.09 (c) of this Agreement
(7) Unallocated	<u>550,000</u>	
TOTAL	<u>35,000,000</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 training events, including the cost of facilities, materials and supplies, and participant costs; and

(d) the term “operating costs” means incremental expenses incurred by the implementing agencies on account of Project implementation, including office premises rent, communications costs, utilities, office supplies and maintenance, fuel and vehicle operation and its maintenance, staff salaries (other than Government employees), and management and monitoring costs as may be agreed upon by 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, except that withdrawals, in an aggregate amount not exceeding □3,500,000, may be made on account of payments made for expenditures before that date but after December 1, 2004; (b) payments for expenditures under Category (1) set forth in the table in paragraph 1 of this Schedule until the Operational Manual, satisfactory to the Bank, has been adopted by the Borrower; and (c) any expenditure under Categories (1) through (5) in the table in paragraph 1 above, unless the Bank has received payment in full of the front-end fee referred to in Section 2.04 of this Agreement.

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 □100,000 equivalent; (ii) services provided by consulting firms under contracts not exceeding □150,000 equivalent; (iii) services provided by individual consultants under contracts not exceeding □25,000 equivalent; (iv) Grants under Part A of the Project in respect of contracts for goods and services not exceeding □200,000 equivalent; (v) training; and (vi) operating costs, 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 commercial bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

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.4 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 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 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 subparagraphs (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 \$3,500,000 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 support the economic and social revitalization of disadvantaged and war-affected areas of the Borrower and increase social cohesion.

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: Community Investments Program

Provision of Grants for the following types of Sub-projects: (a) social inclusion Sub-projects aimed at promoting and supporting community-based services, initiatives and activities by Beneficiaries in ASSCs; (b) economic revitalization Sub-projects supporting development of farm and off-farm income generation activities in local communities; and (c) small community infrastructure Sub-projects providing increased access to services and public utilities, through the rehabilitation of small scale social and economic infrastructure.

Part B: Mine clearance

1. Provision of equipment to the CROMAC and technical services for coordination of specific demining activities.
2. Carrying out Mine clearance in areas selected in accordance with the Operational Manual.

Part C: Institutional Development

1. Strengthening the institutional capacity of the MSTTD and other relevant ministries and institutes directly involved in the area of regional development policy implementation.
2. Supporting preparation of regional operational programs in selected counties.
3. Provision of technical assistance and training for the institutional development of civil society organizations, county Project management units and local/municipal governments in ASSCs.

Part D: Project Management

1. Provision of support to the MSSTD/PMU to strengthen fiduciary financial management, procurement capacity, Beneficiary outreach and monitoring and evaluation of Project activities.
2. Establishment of Regional Coordination Units (RCUs) in several selected counties for building capacity for participatory regional/local development planning.

* * *

The Project is expected to be completed by December 31, 2008.

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 May 15, 2010 through November 15, 2019	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, works and technical services 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 Technical Services

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts 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. Technical services estimated to cost less than □750,000 equivalent per contract and goods estimated to cost less than □225,000 per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provision:

(i) Invitations to bid shall be advertised in the Borrower’s Official Gazette and in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.

(ii) Government-owned enterprises located and operating on the Borrower’s territory, shall be eligible to participate in the 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.

(iii) Procuring entities shall use the appropriate standard bidding documents for the procurement of goods 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.

(iv) 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.

(v) 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. All bids submitted on or before the deadline for submission of bids will be opened and read out at public bid opening. No bids will be rejected at the bid opening.

(vi) 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.

(vii) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.

(viii) No domestic preference shall apply under National Competitive Bidding.

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

(x) All bids shall not be rejected and new bids shall not be solicited without the Bank's prior written concurrence.

(xi) Bid securities should not exceed 2% (two percent) of the estimated cost of the contract; and performance securities -- not more than 10% (ten percent) of the contract amount. 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 estimated to cost less than □75,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods 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 of the Project, shall be procured in accordance with the provisions of paragraph 3.17 of the Guidelines and procedures set forth in the Operational Manual.

5. Commercial Practices. Goods, works and services for Subprojects under Part A of the Project to be implemented by the cooperatives and small and medium sized enterprises, may be procured in accordance with commercial practices set forth in the Operational Manual.

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 □150,000 equivalent per contract may comprise entirely national consultants unless qualified international firms expressed interest.

B. Other Procedures

1. 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.

2. 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.

3. Selection Based on Consultants' Qualifications. Services estimated to cost less than □150,000 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.

4. 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.

5. 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. In addition, the record of justification referred to in paragraph 5 of Appendix 1 to the Consultant Guidelines for the first two contracts and each subsequent contract for the employment of individual consultants estimated to cost the equivalent of 25,000 or more shall be subject to Prior Review by the Bank. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

Part A: Project Management

1. The Borrower, through the MSTTD, shall maintain the PCU during execution of the Project, with staffing and resources adequate to enable the PCU to effectively implement the Project, and which shall, *inter alia*, be responsible for the financial management, procurement, disbursement, and preparation of progress reports and annual reports in respect of or related to the Project.
2. Not later than May 1, 2005, the Borrower shall establish and thereafter maintain during Project implementation a Steering Committee, with a composition and terms of reference acceptable to the Bank, which shall be responsible for overseeing implementation of the Project at the national level, including, but not limited to: (a) approval of the annual investment policy and strategy for regional distribution of funds; (b) monitoring Project implementation and reporting on a regular basis in accordance with the terms of reference establishing the Steering Committee; and (c) approval of audits and supervision of compliance with audit requirements.
3. Not later than July 1, 2005, the Borrower shall establish and thereafter maintain during Project implementation Regional Coordination Units (RCUs) in Slavonia, Banja/Kordun and Lika/Dalmatia regions which shall be responsible for supervising and monitoring implementation of relevant Project activities in their respective regions and shall coordinate the implementation of the Project with the PCU.
4. The Borrower shall carry out the Project in accordance with the provisions of the Operational Manual, including provisions of the EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual, without prior approval of the Bank.
5. The Borrower shall:
 - (a) cause the CROMAC to implement Part B of the Project, including but not limited to: (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.

Part B: Reporting and Monitoring

1. The Borrower shall:

(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 January 31, 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 March 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 January 31 of each year throughout the execution of the Project, commencing from January 31, 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: Community Investments Program

1. Not later than September 30, 2005 the Borrower shall establish a Sub-project approval committee under each RCU, comprising representatives from municipalities, counties, civil society and the private sector, which shall be responsible for reviewing and selecting Sub-projects to be financed under Part A of the Project.

2. For the purposes of carrying out Part A of the Project, the Borrower shall ensure that:

(a) a Sub-project approval committee shall select Sub-projects for financing from the proceeds of the Loan in accordance with criteria and selection procedures set forth in the Operational Manual, including screening of potential land acquisition and/or resettlement in submitted Sub-projects;

(b) a Sub-project approval committee and the MSTTD shall review compliance of Sub-projects with the environmental requirements of the Operational

Manual and require, where applicable, provision of Land Acquisition and/or Resettlement Plans;

(c) Sub-projects which may involve land acquisition and/or resettlement issues, shall be submitted to the Bank for its prior review and approval;

(d) the MSTTD 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 the MSTTD 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 small works, goods and services to be financed under the Grant Agreement in accordance with the procedures set forth in the Operational Manual and to comply with the EMP provisions;
- (vi) the obligation of the Beneficiary to report to the MSTTD on the progress of Sub-project implementation and to enable representatives of the MSTTD 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 carry out a Land Acquisition and/or Resettlement Plan, where applicable; and
- (viii) 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 the MSTTD at regular intervals statements with respect to such records and accounts.

