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**LOAN NUMBER 7453 HR**

# **Project Agreement**

**(Inland Waters Project)**

**between**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**and**

**HRVATSKE VODE**

**Dated June 12, 2007**

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**LOAN NUMBER 7453 HR**

**PROJECT AGREEMENT**

Agreement dated June 12, 2007, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and HRVATSKE VODE (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement of same date between the Republic of Croatia (“Borrower”) and the Bank (“Loan Agreement”). The Bank and the Project Implementing Entity hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Loan Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Loan Agreement or the General Conditions.

**ARTICLE II - PROJECT**

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall:
  - (a) carry out the Project in accordance with the provisions of Article V of the General Conditions and the provisions of the Project Implementation Plan;
  - (b) carry out Parts A.3 and B.1 of the Project in close cooperation with the Utilities; and
  - (c) provide promptly as needed, the funds, facilities, services and other resources required for the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III - REPRESENTATIVE; ADDRESSES**

- 3.01. The Project Implementing Entity’s Representative is the General Director.

3.02. The Bank's Address is:

International Bank for  
Reconstruction and Development  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. The Project Implementing Entity's Address is:

Hrvatske Vode  
Ulica grada Vukovara 220  
10000 Zagreb  
Croatia

Facsimile:  
+385-1-6151-793

AGREED at Davor, Republic of Croatia, as of the day and year first above written.

INTERNATIONAL BANK FOR  
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. Seth  
Authorized Representative

HRVATSKE VODE

By: /s/ Slavko Rajnovic  
Authorized Representative

## **SCHEDULE**

### **Execution of the Project**

#### **Section I. Institutional and Other Arrangements**

1. The Project Implementing Entity, shall maintain at all times during Project implementation, the Implementation Unit, with terms of reference and resources satisfactory to the Bank, and competent staff in adequate numbers.
2. The Project Implementing Entity, through the Implementation Unit, shall:
  - (a) implement the Project in accordance with the Project Implementation Plan;
  - (b) assist the Utilities to prepare investments for Sub-projects to be financed under Part B.1 of the Project in accordance with the requirements of economic, financial and technical viability;
  - (c) prepare and carry out investments under part B.2 of the Project in accordance with the requirements of economic, financial and technical viability;
  - (d) carry out procurement functions for all activities to be financed under the Project and shall involve Utilities in the preparation of bidding documents and evaluation of bids for Sub-projects;
  - (e) make disbursements for contracts to be financed with the Loan proceeds through the designated account or through direct payments from the Loan Account, and manage the designated account; and
  - (f) monitor the flow of funds for the Project and ensure that the counterpart funds for Sub-projects are adequate and available in a timely manner.
3. The Project Implementing Entity shall implement the Project in accordance with the provisions of the Environmental Framework and of the Policy Framework for Land Acquisition and Resettlement, if applicable, both satisfactory to the Bank, and shall not amend, suspend or abrogate any of their provisions without the prior agreement of the Bank.

**Section II. Project Monitoring, Reporting, Evaluation**

**A. Project Reports**

The Project Implementing Entity shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one calendar semester, and shall be furnished to the Borrower not later than forty five (45) days after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

**B. Financial Management, Financial Reports; Audits**

1. The Project Implementing Entity shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to the Project.

2. The Project Implementing Entity shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each audit of these financial statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six months after the end of the period.

**Section III. Procurement**

All goods, works and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

**Section IV. Other Undertakings**

1. For the purposes of implementing Part B.1 of the Project: (a) the Project Implementing Entity shall carry out assessments of identified investments for Sub-projects and shall prepare and submit to the Bank and the Borrower consolidated Appraisal Reports for each Set of Investments in accordance with the following time table:

- (i) Appraisal Report for Set 1 Investments – not later than July 1, 2007;
- (ii) Appraisal Report for Set 2 Investments – not later than November 1, 2007; and

(iii) Appraisal Report for Set 3 Investments – not later than June 1, 2008.

(b) Selected Sub-projects shall be viable on economic, financial and technical grounds.

(c) Appraisal Reports shall be prepared in accordance with the PIP, and shall include, without limitation: (i) financing plan for each Sub-project; (ii) technical analysis of the proposed investments under Sub-project; (iii) institutional analysis; (iv) environmental assessment in accordance with the requirements of the Environmental Framework; (v) application of the Policy Framework for Land Acquisition and Resettlement, if relevant; (vi) procurement plan; (vii) financial management arrangements; and (viii) Sub-project performance indicators.

(d) Appraisal Report for Set 1 Investments, in addition to Sub-projects included in Set 1 Investments, shall include analysis for investments under Part B.2 of the Project.

2. The Project Implementing Entity shall make available the proceeds of the Loan to the eligible Utilities for financing of Sub-projects included in the respective Appraisal Report which shall have been reviewed and approved by the Bank. For this purpose, the Project Implementing Entity shall enter into a Subsidiary Financing Agreement with the respective Utility and a Municipality which has ownership in the respective Utility, under terms and conditions approved by the Bank, and which shall include, *inter alia*:

(a) a description of the Sub-project, together with the cost thereof;

(b) terms and conditions of the financing provided by the Project Implementing Entity to the Utility for the Sub-project, including: (a) from 70% to 95% of the financing of the Sub-project provided as a grant and the remaining of the financing of the Sub-project provided as a loan; (b) financing provided be denominated in Euro; (c) repayment of the financing of the Sub-project provided as a loan, over a period of fifteen (15) years, inclusive of a grace period of five (5) years; (d) payment of interest on the principal amount of the financing of the Sub-project provided as a loan, withdrawn and outstanding from time to time at the rate payable by the Borrower pursuant to Section 2.05 of the Loan Agreement; and (e) payment of a commitment charge on 50% of the unwithdrawn balance of the financing of the Sub-project provided as a loan and as a grant at the rate payable by the Borrower pursuant to Section 2.03 of the Loan Agreement;

(c) implementation schedule and implementation arrangements for the Sub-project;

(d) obligation of the Utility to enable representatives of the Borrower and the Bank, if the Bank shall so request, to visit the facilities or other activities to be financed under the Sub-project contract;

(e) obligation of the utility to implement the Sub-project in accordance with the Environmental Framework and the Policy Framework for Land Acquisition and Resettlement, and in compliance with the Safeguard Policies, if applicable;

(f) obligation of the Utility to open and maintain an escrow account, and regularly deposit adequate amounts required for debt service repayment to the Project Implementing Entity;

(g) obligation of the Utility and Municipality to take all necessary measures required for successful implementation of the Sub-project by the Utility, including, without limitation: (i) adjustment of tariffs to sustain operations and pay for costs related to operations and investments; (ii) provision of necessary funds and facilities, (iii) facilitating the permits approval process for infrastructure investments; (iv) make operational improvements of the Utilities through Part A.3 of the Project; and (v) meet the Sub-project indicators;

(h) the obligation of the Utility to submit to the Project Implementing Entity their audited financial statements on annual basis and to submit audit reports not later than May 31 of each year during execution of the Project; and

(i) the obligation of the Project Implementing Entity to assist the Utility with procurement of goods, works and services required for Sub-projects; disbursement of funds and payments to contractors; supervision of contracts and monitoring of Sub-project implementation; and ensuring compliance with the Safeguard Policies.