

CONFORMED COPY

LOAN NUMBER 7360 HR

Project Agreement

(Agricultural Acquis Cohesion Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

HAMAG

Dated May 8, 2006

LOAN NUMBER 7360 HR

PROJECT AGREEMENT

AGREEMENT, dated May 8, 2006 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and Hrvatska agencija za malo gospodarstvo (HAMAG).

WHEREAS (A) by the Loan Agreement of even date herewith between the Bank and the Republic of Croatia (the Borrower), the Bank has agreed to make available to the Borrower a loan in an amount equal to twenty-five million five hundred thousand Euro ((EUR 25,500,000) on the terms and conditions set forth in the Loan Agreement, but only on condition that HAMAG agree to undertake such obligations toward the Bank as are set forth in this Agreement;

(B) by an Administrative Service Agreement to be entered into between the Borrower and HAMAG, a portion of the proceeds of the Loan provided for under the Loan Agreement will be made available to HAMAG on the terms and conditions set forth in said Administrative Service Agreement;

WHEREAS HAMAG, in consideration of the Bank's entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Loan Agreement, the Preamble to this Agreement and the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) HAMAG declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Loan Agreement, and, to this end, shall carry out Part A.3 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and managerial practices, and shall provide, or

cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A.3 of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Bank and HAMAG shall otherwise agree and upon notice to the Borrower, HAMAG shall carry out Part A.3 of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. (a) HAMAG shall carry out 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 the Project Agreement.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, HAMAG shall:

- (i) prepare, on the basis of guidelines agreed with the Bank, and furnish to the Bank not later than two (2) months before the Closing Date or such later date as may be agreed for this purpose between the Bank and HAMAG, a plan for the future operation of the Project, including a plan for continued operation of the SAPARD Guarantee Facility; and
- (ii) afford the Bank a reasonable opportunity to exchange views with HAMAG on said plan.

Section 2.03. HAMAG shall duly perform all its obligations under the Administrative Service Agreement. Except as the Bank shall otherwise agree, HAMAG shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Administrative Service Agreement or any provision thereof.

Section 2.04. (a) HAMAG shall, at the request of the Bank, exchange views with the Bank with regard to progress of Part A.3 of the Project, the performance of its obligations under this Agreement and under the Administrative Service Agreement, and other matters relating to the purposes of the Loan.

(b) HAMAG shall promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of Loan, or the performance by HAMAG of its obligations under this Agreement and under the Administrative Service Agreement.

ARTICLE III

Management and Operations of HAMAG

Section 3.01. HAMAG shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and environmental practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) HAMAG 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, and adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Part A.3 of the Project.

- (b) HAMAG shall:
 - (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Loan is made, have financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year or other period agreed to by the Bank, audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
 - (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, or such other period agreed to by the Bank: (A) certified copies of its financial statements 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 such scope and detail satisfactory to the Bank; and
 - (iii) furnish to the Bank such other information concerning said records, accounts and financial statements and the audit of such financial statements, and concerning said auditors, as the Bank shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination;

Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Loan Agreement becomes effective.

Section 5.02. This Agreement and all obligations of the Bank and of HAMAG thereunder shall terminate on the date on which the Loan Agreement shall terminate in accordance with its terms, and the Bank shall promptly notify HAMAG thereof.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Bank:

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

Cable address:
Facsimile:

Telex:

INTBAFRAD
Washington, D.C.
477-6391

248423 (MCI) or
64145 (MCI) (202)

For HAMAG:

Prilaz Gj.Dezelica 7
10000 Zagreb
Republic of Croatia

Facsimile:

(385-1)484-6750

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of HAMAG, may be taken or executed by the President of the Managing Board, or such other person or persons as the President of the Managing Board shall designate in writing, and HAMAG shall furnish to the Bank sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Zagreb, Croatia as of the day and year first above written.

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. Seth

Authorized

Representative

HAMAG

By: /s/ Tomislav Kovacevic

Authorized Representative

SCHEDULE 1

Implementation Program

Part A: Guarantee Facility Account

1. HAMAG shall establish a Guarantee Facility Account for the SAPARD Guarantee Facility in a bank on terms and conditions satisfactory to the Borrower and the Bank and for the purposes of implementing Part A.3 of the Project.

2. HAMAG shall manage and use the proceeds of the Guarantee Facility Account in a manner consistent with the purposes and objectives of the Loan Agreement and in accordance with the provisions of the Operational Guidelines, including but not limited to using the proceeds of the Guarantee Facility Account exclusively for making payments in connection with calls on guarantees provided to the Participating Banks issued pursuant to the respective Guarantee Agreement.

3. HAMAG shall act prudently and reasonably in exercising its management obligations in respect of the Guarantee Facility Account, including prudently investing the proceeds of the Guarantee Facility Account, in a manner satisfactory to the Borrower and the Bank and in accordance with the provisions of the Administrative Service Agreement, and shall deposit income deriving from subrogation recoveries and any fees directly into said Guarantee Facility Account.

4. HAMAG shall promptly refund to the Borrower any withdrawals or payments from the Guarantee Facility Account, if:

(a) the Bank shall have determined at any time that any payment made from the Guarantee Facility Account was used for any expenditure not consistent with the provisions of this Agreement; or

(b) any payment made from the Guarantee Facility Account (or from the investment income generated therefrom) was made under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by the beneficiary, or by representatives of the Borrower, or HAMAG during the procurement or execution of such contract, without the Borrower or HAMAG having taken timely and appropriate action satisfactory to the Bank to remedy the situation.

Refunds to the Bank made pursuant to sub-paragraphs (a) and (b) of this paragraph shall be credited to the Loan Account for subsequent withdrawal for Project activities of for cancellation in accordance with the relevant provisions of this Agreement.

5. HAMAG shall carry out the following with respect to expenditures funded with withdrawals from the Guarantee Facility Account:

- (a) maintain records and accounts reflecting such expenditures;
- (b) retain for at least one (1) year after the Project Closing Date all records evidencing such expenditures;
- (c) enable the Borrower and the Bank to examine such records; and
- (d) ensure that the audit reports contain a separate opinion by the auditors as to whether the records and accounts submitted for the relevant audit, together with the procedures and controls involved in their preparation, can be relied upon to support the related withdrawals.

Part B: Operation of the SAPARD Guarantee Facility

1. After the Bank has received evidence satisfactory to it that the Guarantee Facility Account has been duly opened, withdrawals of the amounts from the Loan Account for deposit into the Guarantee Facility Account shall be made as follows:

(a) HAMAG shall execute a Guarantee Agreement with a Participating Bank in form and substance acceptable to the Bank and, for each executed Guarantee Agreement, furnish the Borrower and the Bank with evidence satisfactory to the Bank that said Guarantee Agreement has been duly authorized and executed in compliance with the provisions of the Operational Guidelines and this Agreement;

(b) within thirty (30) days of a guarantee call payment made by a Participating Bank, provide to the Borrower and the Bank, a written report indicating the reasons for the default and its assessment whether the request for the guarantee payment is fully in compliance with the terms and conditions of the respective Guarantee Agreement; and

(c) if, as HAMAG shall reasonably and prudently determine, the guarantee payment is called and payable in accordance with the terms and conditions of the respective Guarantee Agreement, HAMAG shall submit, through the Borrower, a request to the Bank for withdrawal from the Loan Account and deposit to the Guarantee Facility Account of an amount equivalent to the amount of the guarantee commitment under said Guarantee Agreement.

2. HAMAG shall make withdrawals from the Guarantee Facility Account for: (a) payments made in accordance with a call on a guarantee issued to a Participating Bank in accordance with a Guarantee Agreement, as a result of a default on a loan by a Beneficiary, for which the Participating Bank is unable to secure satisfaction of said loan

in accordance with the relevant Guarantee Agreement; (b) using the fees deposited on said account; and (c) refunds to the Bank or the Borrower that may be required pursuant to the provisions of this Agreement or the Administrative Service Agreement. All withdrawals from the Guarantee Facility Account shall be made in accordance with the provisions of the Operational Guidelines.

3. HAMAG shall obtain the Bank's approval of the first Guarantee Agreement between HAMAG and a Participating Bank, prior to entering into said Guarantee Agreement.

4. The Bank has the right to terminate disbursements into the Guarantee Facility Account of HAMAG in the event that:

(a) Administrative Service Agreement, or any provision thereof, is amended, suspended, abrogated, waived or repealed by the Borrower or HAMAG, without the prior concurrence of the Bank, and such amendment, suspension, abrogation, waiver or repeal materially and adversely affects the ability of the Borrower or HAMAG to perform any of its obligations under Administrative Service Agreement;

(b) any authority having lawful jurisdiction shall have taken any action for dissolution or disestablishment of HAMAG, or for the suspension of its operations, and such dissolution, disestablishment or suspension shall materially and adversely affect the ability of HAMAG to carry out their respective obligations under the Administrative Service Agreement;

(c) HAMAG fails to fulfill its obligations under the Administrative Service Agreement; or

(d) the charter of HAMAG is amended, suspended, abrogated, repealed or waived in a manner which, in the opinion of the Bank, would materially and adversely affect the ability of: (i) the Borrower to effectively implement its obligations under the Administrative Service Agreement; or (ii) HAMAG to effectively carry out its obligations under the Administrative Service Agreement.