

CONFORMED COPY

LOAN NUMBER 7360 HR

Loan Agreement

(Agricultural Acquis Cohesion Project)

between

REPUBLIC OF CROATIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated May 8, 2006

LOAN NUMBER 7360 HR

LOAN AGREEMENT

AGREEMENT, dated May 8, 2006, 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 (the Project), has requested the Bank to assist in the financing of the Project;

(B) Part A.3 of the Project will be carried out by Hrvatska agencija za malo gospodarstvo (HAMAG), with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the Loan available to HAMAG, as set forth in this Agreement;

(C) The Borrower intends to obtain from the Government of the Netherlands, a grant in an amount of EUR 4,000,000 to assist in financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the Government of the Netherlands (the Dutch Grant Agreement);

WHEREAS the Bank has agreed, on the basis, *inter alia*, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Bank and HAMAG;

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) (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:

(a) “Administrative Service Agreement” means the agreement to be entered into between the Borrower, represented by MOF and MAFWM, and HAMAG pursuant to Section 3.01(c) of this Agreement;

(b) “Beneficiary” means an entity duly established and operating in the Republic of Croatia and eligible, in accordance with the SAPARD Multi-Annual Financing Agreement to receive a grant for a SAPARD Sub-project;

(c) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures referred to in Section 2.02 of this Agreement;

(e) “EMP” means the Environmental Management Plan describing the environmental mitigation measures, monitoring and institutional measures for the Project;

(f) “FMR” means a Financial Monitoring Report prepared in accordance with Section 4.02 of this Agreement;

(g) “FSC” means the Facility Steering Committee referred to in Part C.1 of Schedule 5 to this Agreement;

(h) “Guarantee Agreement” means an agreement, the content and terms and conditions of which are set forth in the Operational Guidelines and which includes, without limitation, definitions of a guarantee holder, covered risks, default and other applicable terms, entered or to be entered into between HAMAG and a Participating Bank, pursuant to Part C.3 of Schedule 5 to this Agreement;

(i) “Guarantee Facility Account” means the account to be established by HAMAG pursuant to Part A.1 of Schedule 1 to the Project Agreement for the purposes of operating the SAPARD Guarantee Facility (hereinafter defined) under Part A.3 of the Project;

(j) “IACS” means Integrated Administration and Control System;

(k) “ISTA” means International Seed Testing Association;

(l) “MAFWM” means the Borrower’s Ministry of Agriculture, Forestry and Water Management, or any legal successor thereto;

(m) “MOF” means the Borrower’s Ministry of Finance, or any legal successor thereto;

- (n) “NUTS” means Nomenclature of Territorial Units for Statistics;
- (o) “Operational Guidelines” means the guidelines approved by FSC which:
(i) set forth procedures for screening SAPARD Sub-projects and establishing their eligibility for SAPARD financing; (ii) set forth procedures for issuance of guarantees by HAMAG under Part A.3 of the Project; and (iii) establish terms and conditions of Guarantee Agreements, including, without limitation, a definition of a guarantee holder, covered risks, default, guarantee fees and other applicable terms, to be entered into between HAMAG and a Participating Bank;
- (p) “Operational Manual” means the manual, adopted by the MAFWM and satisfactory to the Bank, setting forth procedures for implementation of the Project, and which includes the EMP as its integral part, as the same may be amended from time to time with the agreement of the Bank;
- (q) “Participating Bank” means a commercial bank duly established and operating in the Republic of Croatia which is eligible, in accordance with the criteria set forth in the Operational Guidelines, to receive a guarantee from the SAPARD Guarantee Facility for loans provided to Beneficiaries for SAPARD Sub-projects;
- (r) “PIU” means the Project Implementation Unit established within the Department for Policy, EU and International Relations of MAFWM;
- (s) “Procurement Plan” means the Borrower’s procurement plan, dated December 1, 2005, covering the initial eighteen (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 eighteen (18) month periods (or longer) of Project implementation;
- (t) “Project Preparation Facility” means the project preparation advance granted by the Bank to the Borrower pursuant to the letter agreement signed on behalf of the Bank on March 29, 2005, and on behalf of the Borrower on June 24, 2005;
- (u) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Loan Account referred to in Part A.5 of Schedule 1 to this Agreement;
- (v) “SAPARD” means Special Accession Program for Agriculture and Rural Development, providing for a European Community financial contribution and established by Council Regulation (EC) No. 1268/1999 of June 21, 1999 on Community Support for Pre-accession Measures for Agriculture and Rural Development in the Applicant Countries of Central and Eastern Europe in the Pre-accession Period, or any successive instrument that may be approved by the European Community to support pre-accession measures for agriculture and rural development;

(w) “SAPARD Financing” means the funds to be provided by the European Community to the Borrower under SAPARD pursuant to the SAPARD Multi-Annual Financing Agreement;

(x) “SAPARD Guarantee Facility” means the facility to be established by the Borrower under Part A.3 of the Project, through HAMAG as an administrative agent, for the purpose of providing guarantees to Participating Banks providing pre-financing loans to eligible Beneficiaries for SAPARD Sub-projects, to cover risks associated with the Beneficiaries’ compliance with disbursement conditions for SAPARD Financing;

(y) “SAPARD Multi-Annual Financing Agreement” means an agreement to be entered into between the Borrower and the Commission of the European Communities on behalf of the European Community, setting forth the technical, legal and administrative framework under which SAPARD shall be executed in Croatia;

(z) “SAPARD Sub-project” means a project to be carried out by a Beneficiary, eligible for SAPARD Financing pursuant to the terms and conditions of the SAPARD Multi-Annual Financing Agreement, and for which a pre-financing loan has been obtained by the Beneficiary from a Participating Bank; and

(aa) “Special Account” means the account referred to in Part B of Schedule 1 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 twenty-five million five hundred thousand Euro (EUR 25,500,000), 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. (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: (a) expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works, services and operating costs required for the Project and to be financed out of the proceeds of the Loan; (b) the funding of the SAPARD Guarantee Facility under Part A.3 of the Project; and (c) any premium in respect of an Interest Rate Cup or Interest Rate Collar payable by the Borrower in accordance with Section 4.04(c) of the General Conditions.

(b) Promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount required to

repay the principal amount of the Project Preparation Facility withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be October 31, 2010, 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. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of such fee.

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, subject to any waiver of a portion of the commitment charge as may be determined by the Bank from time to time.

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 April 15 and October 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: (i) carry out the Project through MAFWM; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause HAMAG to carry out Part A.3 of the Project; all with due diligence and efficiency and in conformity with appropriate administrative, environmental and financial 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, through MAFWM, shall carry out the Project and shall cause HAMAG to carry out Part A.3 of the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

(c) For the purposes of carrying out Part A.3 of the Project, the Borrower shall make the proceeds of the Loan, allocated from time to time to Category (5) in the table set forth in Part A.1 of Schedule 1 to this Agreement, to HAMAG, under the Administrative Service Agreement, to be entered into between the Borrower, represented by MOF and MAFWM, and HAMAG under terms and conditions which shall have been approved by the Bank, including, *inter alia*, the provisions of Part C of Schedule 5 to this Agreement;

(d) The Borrower shall exercise its rights under the Administrative Service 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, abrogate or waive the Administrative Service Agreement or any provision thereof.

Section 3.02. (a) Except as the Bank shall otherwise agree, procurement of works, goods and consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 4 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through MAFWM, shall update the Procurement Plan in accordance with guidelines acceptable to the Bank, and furnish such update to the Bank not later than twelve (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, through MAFWM, 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower, through MAFWM, shall maintain and shall cause HAMAG to 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, through MAFWM, 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;

(i) 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 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

- (ii) 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) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of statements of expenditure, the Borrower shall, through MAFWM:

- (i) retain, until at least one (1) 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 records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (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, through MAFWM, prepare and furnish to the Bank an FMR, 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 forty-five (45) 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 forty-five (45) 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 events are specified:

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

(b) The Dutch Grant Agreement shall have failed to become effective by April 30, 2006, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

- (c) (i) Subject to sub-paragraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the Dutch Grant Agreement shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Dutch Grant Agreement.
- (ii) Sub-paragraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01 The following is specified as additional matter, 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, namely that the Project Agreement has been duly executed by HAMAG and is legally binding upon HAMAG, in accordance with its terms.

Section 6.02. 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:

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

REPUBLIC OF CROATIA

By: /s/ Ivan Suker

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By: /s/ Anand K. 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) Works	11,136,250	85%
(2) Goods	6,600,000	100% of foreign expenditures, 100% of local expenditures (ex-factory) and 85% of local expenditures for other items procured locally
(3) Consultants' Services and Training	1,450,000	100%
(4) Operating Costs	650,000	100%
(5) Guarantee Facility	4,000,000	100% of the amount of the guarantee commitment under each Guarantee Agreement
(6) Refunding of Project Preparation Facility	1,600,000	Amount due pursuant to Section 2.02(b) of this Agreement
(7) Front-end fee	63,750	Amount due under Section 2.04 of this Agreement
(8) Premia for Interest Rate Caps and Interest Rate Collars	_____	Amount due under Section 2.09(c) of this Agreement

TOTAL 25,500,000

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods, works 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, works or services supplied from the territory of the Borrower;

(c) the term “training” means expenditures for training events, including the cost of facilities, materials and supplies, translation costs and participants’ per diem, as such costs are agreed upon with the Bank; and

(d) the term “operating costs” means incremental operating costs incurred by the PIU on account of Project implementation including communications, office supplies, utilities, operation and maintenance of office equipment, vehicles maintenance, and publication costs for Project reports.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures incurred prior to the date of this Agreement;

(b) in respect of payments under Category (5) of the table in Part A.1 of this Schedule in connection with any Guarantee Agreement until: (i) the Administrative Service Agreement, satisfactory to the Bank, has been duly executed by the Borrower and HAMAG; (ii) the Operational Guidelines, acceptable to the Bank, have been approved by FSC; and (iii) the Bank has been furnished with evidence, satisfactory to the Bank, that a Guarantee Agreement between HAMAG and a Participating Bank, acceptable to the Bank, has been duly authorized and executed and the guarantee payment is called and payable in accordance with the terms of said Guarantee 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) works under contracts not exceeding EUR 3,000,000 equivalent; (ii) goods under contracts not exceeding EUR 500,000 equivalent; (iii) services provided by consulting firms under contracts not exceeding EUR 160,000 equivalent; (iv) services provided by individual consultants under contracts not exceeding EUR 50,000 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 bank acceptable to the Bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachments.

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.5 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 sub-paragraph (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 EUR 2,500,000 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 develop sustainable systems and capacities within MAFWM and other public institutions to ensure timely compliance with EU *acquis* conditions in the rural sector.

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: Strengthening Capacity for Absorbing EU Financial Assistance in the Agriculture Sector

1. SAPARD Managing Authority: Establishment of a SAPARD Managing Authority within MAFWM; strengthening SAPARD implementation and monitoring capacities; and development and implementation of a communication strategy for SAPARD.
2. Payment Agency: Establishment of the MAFWM's Payment Agency (PA), including an accredited SAPARD Payment Agency; construction and equipping of regional PA sub-offices in NUTS regions; and establishment of a comprehensive IACS within the PA.
3. SAPARD Guarantee Facility: Establishment of a SAPARD Guarantee Facility for providing guarantees to Beneficiaries for loans from Participating Banks under SAPARD.

Part B: Empowerment of MAFWM Administration and Management

1. Establishment of an organized, cohesive and well-informed MAFWM management and administration team, with improved capacity to address the challenges of EU accession.
2. Provision of technical assistance and training to strengthen the policy analysis capacity of the MAFWM Policy Analysis Unit.
3. Upgrading of the Agricultural Information Center and of the farm register, and establishment of a pilot Farm Accounting Data Network (FADN) in the Center.
4. Establishment of a management information system for MAFWM compatible with the Borrower's information technology policy.

Part C: Ensuring Safe Food and Sanitary and Phytosanitary Conditions

1. Development of the Croatia Food Agency (CFA): Development of the CFA and establishment of a consolidated, transparent, efficient, and risk assessment based food safety program.

2. Strengthening Veterinary and Plant Health Services

(a) Development of regionally structured veterinary and phytosanitary inspection services supported by investments in staff capacity building, transportation, testing equipment, a web-based inspection reporting, certification and data management system and civil works and office equipment at up to five (5) regional centers.

(b) Establishment of a veterinary epidemiology unit including the completion and integration of MAFWM epidemiology, residue testing, animal numbering, and border inspection software and staff training in its use.

(c) Upgrading of the national veterinary and plant health institutes; and establishment of the new veterinary and plant health reference laboratories implementing ISO 17025 testing methodologies, including investment in civil works, staff capacity, information management and some equipment.

(d) Establishment of an ISTA certified laboratory for genetically modified organism (GMO) testing at the Croatian Institute for Seeds and Seedlings.

Part D: Project Management.

Provision of support to the PIU, including provision of goods, technical assistance, training and study tours for the PIU staff, refurbishment of the PIU office, consultant fees, auditing and other operating expenses related to the Project.

* * *

The Project is expected to be completed by April 30, 2010.

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 April 15 and October 15 beginning April 15, 2011, through October 15, 2020	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 (2) 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 and works 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 Service (other than Consultants’ Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts for goods 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. (a) Works estimated to cost less than EUR 3,000,000 equivalent per contract; (b) a works contract for relocation of the National Veterinary Institute not exceeding EUR 5,000,000 equivalent; and (c) goods estimated to cost less than EUR 500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding and the following additional provisions set forth in (a) through (g) of this paragraph. The Bank may, upon notice to the Borrower, increase the above threshold for goods to be procured on the basis of the National Competitive Bidding.

(a) Procedures

The public bidding method shall apply to all contracts. Invitations to bid shall be advertised in the Borrower’s Official Gazette (*Narodne Novine*) and in at least one (1)

widely circulated national daily newspaper or at MAFWM website, allowing a minimum of thirty (30) days for the preparation and submission of bids.

(b) Assessment of Bidders' Qualifications

When pre-qualification shall be required for large or complex works contracts, invitations to pre-qualify for bidding shall be advertised in the Borrower's Official Gazette and at least one (1) widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, technical and financial requirements shall be explicitly stated in the pre-qualification documents, which shall be determined by a 'pass/fail' method, not through the use of a merit point system. Where pre-qualification is not used, the qualifications of the bidder who is recommended for award of contract shall be assessed by post-qualification, applying minimum experience, technical and financial requirements which shall be explicitly stated in the bidding documents. Provisions of paragraph 1.8(c) of Section I of the Procurement Guidelines shall apply to the bidders.

(c) Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works 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.

(d) Bid Submission, Opening and Evaluation

- (i) 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.
- (ii) 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.
- (iii) 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.
- (iv) Extension of bid validity shall be allowed once only for not more than thirty (30) days. No further extensions should be granted without the prior approval of the Bank.

- (v) Contracts shall be awarded to qualified bidders having submitted the lowest evaluated substantially responsive bid.
- (vi) No preference shall apply under National Competitive Bidding.

(e) Price Adjustment

Civil works contracts of long duration (e.g. more than eighteen (18) months) shall contain an appropriate price adjustment clause.

(f) Rejection of All Bids

- (i) All bids shall not be rejected and new bids solicited without the Bank's prior written concurrence.
- (ii) When the number of bids received is less than two (2), re-bidding shall not be carried out without the Bank's prior concurrence.

(g) Securities

Bid securities should not exceed two percent (2%) of the estimated cost of the contract; and performance securities - not more than ten percent (10%). 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 and works estimated to cost less than EUR 60,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines, including as a form of such shopping, the electronic bidding carried out by the Borrower's Central State Office for E-Croatia (*Sredisnji drzavni ured za e-Hrvatsku*) for procurement of computer and standard IT equipment, provided that technical specifications for said equipment shall be subject to the prior review by the Bank in accordance with the procedures set forth in Appendix I to the Guidelines.

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 EUR 200,000 equivalent per contract may comprise entirely national consultants.

B: Other Procedures

1. Quality-based Selection. Services for assignments which the Bank agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured

under contracts awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. 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.

3. 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.

4. Selection Based on Consultants' Qualifications. Services estimated to cost less than EUR 160,000 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.

5. 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.

6. 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. All other contracts shall be subject to Post Review by the Bank.

SCHEDULE 5

Implementation Program

Part A: Project Management

1. The Borrower shall assign to MAFWM the responsibility for Project management and coordination.
2. The Borrower shall, through MAFWM, during duration of the Project: (a) maintain a Project Steering Committee which shall be responsible for the overall policy guidance and coordination of the Project activities; and (b) maintain a PIU within MAFWM, adequately staffed, which shall be responsible for day-to-day management, planning and budgeting of Project activities, procurement, disbursement and financial management, preparation of progress reports, staff management and Project monitoring and evaluation.
3. The Borrower, through MAFWM, shall carry out the Project (except for Part A.3 of the Project) in accordance with the provisions of the Operational Manual, including provisions of EMP, and shall not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual without prior approval of the Bank.

Part B: Reporting and Monitoring

1. The Borrower shall, through MAFWM:
 - (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 September 30, 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, on October 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 February 1 of each year throughout the execution of the Project, commencing from February 1, 2007, 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. Implementation of Part A.3 of the Project "SAPARD Guarantee Facility"

1. Not later than May 31, 2006, the Borrower shall establish and thereafter maintain an FSC comprised, *inter alia*, of representatives of MAFWM, MOF, SAPARD Management Authority and SAPARD Monitoring Committee, which shall be responsible for overseeing the implementation of Part A.3 of the Project on behalf of the Borrower, and which shall closely cooperate with HAMAG.

2. The Borrower shall cause HAMAG: (a) to implement Part A.3 of the Project in accordance with the Operational Guidelines; and (b) not to assign, amend, abrogate or waive the Operational Guidelines or any provisions thereof, without the Bank's prior concurrence.

3. The Borrower shall request the Bank to disburse the proceeds of the Loan, allocated from time to time to Category (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement to the Guarantee Facility Account, upon submission by HAMAG of: (a) a Guarantee Agreement, satisfactory to the Bank, duly executed with a Participating Bank; and (b) evidence satisfactory to the Bank that the guarantee payment under the respective Guarantee Agreement is called and payable in accordance with its terms.

4. The Borrower shall promptly refund to the Bank 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) above, 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. The Borrower shall immediately 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 Administrative Service Agreement;

(c) HAMAG fails to fulfill its obligations under 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 Loan Agreement or Administrative Service Agreement; or (ii) HAMAG to effectively carry out its obligations under Administrative Service Agreement.

6. The Borrower shall cause HAMAG to obtain the Bank's approval of the first Guarantee Agreement between HAMAG and the Participating Bank, prior to entering into said Guarantee Agreement.