

Public Disclosure Authorized

CONFORMEC COPY

LOAN NUMBER 4859-MK

Loan Agreement

(Second Trade and Transport Facilitation Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA (“BORROWER”)

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated September 18, 2007

LOAN NUMBER 4859-MK

LOAN AGREEMENT

Agreement dated September 18, 2007, between the BORROWER and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of fifteen million Euro (€15,000,000), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section V of Schedule 2 to this Agreement.
- 2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time.
- 2.06. The Payment Dates are June 15 and December 15 in each year.

- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project, through the Fund for National and Regional Roads, in accordance with the provisions of Article V of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following, namely that the FNRR's Legislation, Macedonian Railways' Legislation or Macedonian Customs Administration's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of FNRR, Macedonian Railways or Macedonian Customs Administration to perform any of their respective obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS

- 5.01. The Additional Conditions of Effectiveness consist of the following, namely that the Project Operational Manual has been adopted by the Borrower.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Minister of Finance.
- 6.02. The Borrower's Address is:

Ministry of Finance
Dame Gruev 14
1000 Skopje

Facsimile:
389 2 3117 280

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

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

AGREED at Skopje, as of the day and year first above written.

BORROWER

By /s/ Trajko Slaveski
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Markus Repnik
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to facilitate the movement of trade between the Borrower and neighboring countries in South East Europe, through the removal of selected border-zone infrastructure bottlenecks and improving the efficiency and quality of road and rail services along the Trans-European Transport Corridor X on the territory of the Borrower.

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 I: Upgrading Section of Trans-European Transport Corridor X to Motorway Standards

Upgrading of a section of the Trans-European Transport Corridor X to motorway standards, including: (i) the construction of additional lanes and the introduction of traffic management measures; (ii) the reconstruction and repair of existing lanes, exits and entries; and (iii) the supervision of construction, through the provision of works and consultants' services.

Part II: Improvement of Passenger Border-Crossing at Blace

Improvement of passenger border crossing terminal at Blace, including: (i) the removal of temporary facilities; (ii) the construction of permanent facilities; (iii) the construction of additional lanes; and (iv) the supervision of the civil works, through the provision of works, goods and consultants' services.

Part III: Modernization of the Road Toll Collection System

Modernization of the road toll collection system, including: (i) the development of specifications for modern electronic tolling equipment that meet defined system requirements; and (ii) the provision and installation of modern electronic tolling equipment, through the provision of goods and consultants' services.

Part IV: Installation of Railways Communication System

Improvement of the telecommunications system along the railway tracks of the Trans-European Transport Corridor X on the Borrower's territory and introduction of compatible customs and railways freight processing software, including: (i) the installation of a railways communication system and electronic data interchange solutions which harmonize data software between Macedonian Customs Administration and Macedonian Railways; (ii) the upgrading of computer hardware and software for the

Borrower's customs and railways information technology systems, and (iii) technical assistance for the evaluation of "off-the-shelf" software applications and in procurement matters, through the provision of goods and consultants' services.

Part V: Project Implementation Support

Support of Project implementation, including the provision of: (i) audit services; (ii) project management, financial management and procurement training; and (iii) technical services.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

1. The Project Coordination Unit within the FNRR, headed by the FNRR Project Coordinator, shall be responsible for day-to-day Project implementation and for procurement, financial management, disbursement and monitoring, and reporting for the entire Project. To that end, the Borrower shall maintain the Project Coordination Unit with adequate staff and resources, in a manner satisfactory to the Bank.
2. The Steering Committee shall be responsible for overall Project oversight and coordination. To that end, the Borrower shall maintain the Project Steering Committee with terms of reference acceptable to the Bank.
3. The Macedonian Customs Administration shall assist the PCU within the FNRR with the implementation of Parts II and IV (ii) of the Project. The Borrower shall ensure that the Macedonian Customs Administration shall maintain a Project coordinator on terms of reference satisfactory to the Bank.
4. Macedonian Railways shall assist the PCU within the FNRR with the implementation of Parts IV (i) and IV (iii) of the Project. The Borrower shall ensure that Macedonian Railways shall maintain a Project coordinator on terms of reference satisfactory to the Bank.

Section II. Implementation Covenants

1. The Borrower shall carry out the obligations in accordance with the Project Operational Manual, the Environmental Management Plan, and the Resettlement Action Plan, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operational Manual, the Environmental Management Plan, or the Resettlement Action Plan without prior approval of the Bank.
2. The Borrower shall make available: (i) the goods and services under Parts II and IV (ii) of the Project and financed out of the proceeds of the Loan to Macedonian Customs Administration, and (ii) the goods and services under Parts IV (i) and IV (iii) of the Project and financed out of the proceeds of the Loan to Macedonian Railways, under arrangements acceptable to the Bank.
3. The Borrower, through the FNRR, shall, not later than December 31, 2007, or such later date agreed with the Bank:
 - (a) prepare and submit to the Bank for review and comment a draft strategy on road management reform; and

(b) prepare a public information and user consultation strategy for the toll-modernization implementation plan.

4. The Borrower shall, not later than January 1, 2010, convert the positions of five consultants charged with Project implementation within the FNRR into regular staff positions, and shall, thereafter, maintain and adequately fund these regular staff positions.

5. The Borrower, through the FNRR, shall, not later than December 1 each year during the implementation of the Project, starting December 1, 2007, submit to the Bank for review and approval a plan for Project implementation for the following calendar year.

Section III. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. The Borrower, through the FNRR, shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar semester (period ending on June 30 and on December 31), and shall be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

2. Without limitation on the provisions in paragraph 1 of this Sub-section, the Borrower shall:

(a) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, on or about October 31, 2009, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 of this Section, 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

(b) review with the Bank, by November 30, 2009, or such later date as the Bank shall determine, the report referred to in paragraph (a) of this Section, 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.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through the FNRR, shall maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower, or such other period as agreed by the Bank. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section IV. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Schedule.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Shopping

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection based on Consultants Qualifications
(b) Least Cost Selection
(c) Single-Source Selection

D. 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.

Section V. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank shall specify by notice to the Borrower to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(1) Goods, works, consultants' services, Training and Incremental Operating Costs for Parts I, III (i) and V of the Project	7,350,000	78%
(2) Goods, works and consultants' services for Parts II and IV (iii) of the Project	1,400,000	78%
(3) Goods and consultants' services for Part III (ii) of the Project	3,500,000	78%
(4) Goods and consultants' services for Part IV (i) and IV(ii) of the Project	2,750,000	78%
(5) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
TOTAL AMOUNT	<u>15,000,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed □100,000 equivalent may be made for payments made prior to this date but on or after May 1, 2007, for Eligible Expenditures under Categories (1) and (2) in the table in Section V. A of this Schedule;

(b) in respect of payments under Category (3) in the table in Section V. A of this Schedule, until the Borrower has prepared a toll collection system implementation and management plan, satisfactory to the Bank; and

(c) in respect of payments under Category (4) in the table in Section V.A of this Schedule, until the Borrower has prepared an operational plan for the rail communication system on the Trans-European Transport Corridor X, as well as a solution for freight and freight train management information sharing between Macedonian Customs Administration and Macedonian Railways, satisfactory to the Bank.

2. The Closing Date is September 30, 2011.

SCHEDULE 3**Amortization Schedule**

<u>Principal Payment Date</u>	<u>Principal Amount of the Loan Payable (Expressed in Euro)*</u>
On each June 15 and December 15	
Beginning December 15, 2012 through June 15, 2024	625,000

* The figures in this column represent the amount in Euro to be repaid, except as provided in Section 3.10 of the General Conditions.

APPENDIX**Definitions**

1. “Category” means a category set forth in the table in Section V of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “Environmental Management Plan” means the plan adopted by the Borrower, and disclosed on February 23, 2007, satisfactory to the Bank, consisting of the set of mitigation, monitoring, and institutional measures to be taken to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, as well as actions needed to implement these measures.
4. “Fund for National and Regional Roads” or “FNRR” means the Borrower’s Fund for National and Regional Roads, established pursuant to the FNRR’s Legislation (hereinafter defined) on May 16, 1997, and includes any successor thereto.
5. “FNRR’s Legislation” means the Public Roads Act, dated May 29, 1996, published in the Official Gazette No. 26, 1996, as last amended on March 12, 2007.
6. “FNRR Project Coordinator” means the head of the PCU (hereinafter defined), charged with overall Project coordination.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005.
8. “Incremental Operating Costs” means the incremental expenses incurred by the PCU on account of the Project implementation including the costs of communication, printing and publications, supplies, bank charges, local travel costs and field trip expenses.
9. “Macedonian Customs Administration” means the Borrower’s entity in charge of customs administration, established pursuant to the Macedonian Customs Administration’s Legislation on April 14, 1992.
10. “Macedonian Customs Administration’s Legislation” means the Law on Customs Administration dated July 12, 2004, published in the Official Gazette No. 46/2004 (replacing the Law on Customs Administration dated April 14, 1992, published in Official Gazette 25/1992).

11. “Macedonian Railways” means PE Macedonian Railways Unltd-Skopje, the entity in charge of all railways operations in the Borrower’s territory and established as a public enterprise by the Macedonian Railways’ Legislation (hereinafter defined), and shall include any successor thereto charged with railways infrastructure management.
12. “Macedonian Railways’ Legislation” means the Borrower’s Law on Railways dated July 26, 2005, published in Official Gazette No. 64/2005.
13. “Ministry of Finance” or “MoF” means the Borrower’s Ministry of Finance and includes any successor thereto.
14. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
15. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated April 16, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
16. “Project Coordination Unit” or “PCU” means the Borrower’s project coordination unit established within the Fund for National and Regional Roads and referred to in Section I. 1 of Schedule 2 to this Agreement.
17. “Project Operational Manual” means the manual describing procedures for implementation of the Project, consistent with the provisions of this Agreement and with the national laws and regulations of the Borrower and including, inter alia: (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits, and monitoring and evaluation arrangements; (ii) targets to be achieved under the Project; (iii) sample formats for required Project reports; and (iv) a financial management manual.
18. “Resettlement Action Plan” means the Resettlement Action Plan prepared by the Borrower and adopted on April 5, 2007, satisfactory to the Bank, setting forth the procedures, actions, and policies for the assessment, mitigation, and monitoring of resettlement resulting from activities performed under the Project, as the same may be modified from time to time by agreement between the Borrower and the Bank.
19. “Steering Committee” means the committee referred to in Section I.2 of Schedule 2 of this Agreement, chaired by the Deputy Prime Minister for Economic Affairs, and comprising, inter alia, the Minister of Transport and Communications, the Director General of the Fund for National and Regional Roads, the Director General of the Public Enterprise for Housing, the Director of Macedonian

Railways, the Director General of the Macedonian Customs Administration, and a representatives of the Ministry of Finance.

20. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Bank on the basis of annual training and study tour plans acceptable to the Bank, including the reasonable and necessary local and international travel and visa expenses incurred by participants in training workshops, as well as lodging, subsistence, local and international per diem allowances according to the guidelines of the Borrower, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), translation and interpretation costs, facility rental costs, and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Bank.
21. “Trans-European Transport Corridor X” means the section of the transnational South Eastern Transport Axis linking Nis, Skopje and Thessaloniki, and includes the branch connecting Skopje with Pristina.