Loan Agreement

(Regional and Local Roads Program Support Project)

between

FORMER YUGOSLAV REPUBLIC OF MACEDONIA ("BORROWER")

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated July 21, 2008
LOAN AGREEMENT

Agreement dated July 21, 2008, 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 this 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 seventy million Euro (70,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement ("Loan"), 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 IV of Schedule 2 to this Agreement.

2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. 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; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

2.05. The Payment Dates are March 15 and September 15 in each year.
2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (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; and (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.

(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 the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

2.08 Without limitation upon the provisions of Section 5.10 of the General Conditions, the Borrower shall promptly furnish to the Bank such information relating to the provisions of this Article II as the Bank may, from time to time, reasonably request.

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 has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the FNRR to perform any of its 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 occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

**ARTICLE V - EFFECTIVENESS; TERMINATION**

5.01. The Additional Conditions of Effectiveness consists of the following:

(a) The Borrower, through the FNRR, has adopted the Project Operational Manual satisfactory to the Bank.

(b) The Borrower has established the Steering Committee in a manner satisfactory to the Bank.

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

Facsimile:
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
The objective of the Project is to reduce the cost of access to markets and services for communities served by regional and local roads, by improving the condition and quality of a part of the network of regional and local roads.

The Project consists of the following parts:

Part I: Rehabilitation and Periodic Maintenance of Regional Roads

Carrying out localized repairs, periodic maintenance and rehabilitation works on about 330 km of selected regional road sections.

Part II: Rehabilitation and Periodic Maintenance of Local Roads

Carrying out localized repairs and various types of rehabilitation and upgrading works on about 420 km of selected paved and unpaved local roads, including the preparation of the bidding documents relating thereto through the provision of technical advisory services.

Part III: Institutional Support

1. Strengthening the Borrower’s capacity to manage and maintain the road network through the provision of: (i) advisory services to the FNRR and the MTC; (ii) Training to the staff of the FNRR and the MTC; and (iii) office and information and technology equipment, and vehicles.

2. Carrying out the financial and technical audits for the Project.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The FNRR 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 FNRR 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 and a composition acceptable to the Bank.

3. The FNRR shall select the local roads to be improved under Part II of the Project based on proposals made by municipalities, and in accordance with the Project Operational Manual.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Safeguards

1. The Borrower shall: (i) take all necessary measures to implement the Project in accordance with the Project Operational Manual, the SEA, the EAMF, the RPF, the EIAs, the EMPs and the RAPs, and shall not amend, suspend, abrogate, repeal or waive any provision of the Project Operational Manual, the SEA, the EAMF, the RPF, the EIAs, the EMPs and the RAPs, without prior approval of the Bank; and (ii) ensure that adequate information on the implementation of the SEA, the EAMF, the RPF, the EIAs, the EMPs and the RAPs is suitably included in the Project Reports referred to in Section II.A.1 of this Schedule, and in the report referred to in Section II.A.2 (a) of this Schedule 2.

2. The Borrower shall ensure that all measures identified and described in the SEA, the EAMF and the RPF are taken in a timely manner.

3. The Borrower shall:

   (a) prior to commencing civil works for any specific road section and when required under the EAMF, carry out an EIA in form and in substance satisfactory to the Bank;
(b) in the event that an EIA determines that such civil works, if carried out, would have in the opinion of the Bank, a potential for adverse environmental impact, not approve the carrying out of such civil works until an appropriate EMP under the EAMF has been prepared by the Borrower and agreed upon by the Bank to mitigate such potential negative impact; and

(c) thereafter carry out such EMP.

4. Prior to commencement of civil works for any specific road section involving involuntary resettlement or involuntary acquisition of land, the Borrower shall prepare and implement appropriate RAP or RAPs, as the case may be, for compensation, or resettlement, in accordance with the RPF, such RAP or RAPs to be in form and substance satisfactory to the Bank.

Section II. Project Monitoring Reporting and 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 calendar year, and shall be furnished to the Bank not later than one 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, eighteen (18) months after the Effective Date or such later date as the Bank shall determine, 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 objective thereof during the period following such date; and

   (b) review with the Bank, nineteen (19) months after the Effective Date 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 objective 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 or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. The Borrower shall prepare and furnish to the Bank not later than forty-five (45) days after the end of each calendar quarter, interim unaudited 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 fiscal year of the Borrower. 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 III. 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 Section.

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 Section.

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. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

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.
C. Particular Methods of Procurement of Consultants’ Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, 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.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
<tr>
<td>(d) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(e) Least Cost Selection</td>
</tr>
<tr>
<td>(f) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(g) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(h) Sole Source Procedures for the Selection of Individual Consultants</td>
</tr>
</tbody>
</table>

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 IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), 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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (Expressed in Euro)</th>
<th>Percentage of Expenditures to be Financed (Exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Consultants’ Services and Training for the Project</td>
<td>69,825,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Front-end Fee</td>
<td>175,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions</td>
</tr>
</tbody>
</table>

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed 14,000,000 may be made for payments made prior to this date but on or after January 1, 2008, for Eligible Expenditures under Category (1).

2. The Closing Date is July 31, 2013.
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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 15 and September 15</td>
<td></td>
</tr>
<tr>
<td>beginning September 15, 2013 through September 15, 2027</td>
<td>3.33%</td>
</tr>
<tr>
<td>On March 15, 2028</td>
<td>3.43%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

   (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the 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 Withdrawn Loan Balance is 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.
APPENDIX

Definitions


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


5. “EAMF” means the Environmental Assessment and Management Framework, satisfactory to the Bank and adopted by the Borrower on March 5, 2008, setting forth procedures for the environmental screening of the activities under Part I and Part II of the Project, as well as details for the carrying out of the EIAs and the preparation of the EMPs.

6. “EIA” means an Environmental Impact Assessment, including public consultation, satisfactory to the Bank, to be carried out, as the case may be, in respect of the activities under Part I or Part II of the Project.

7. “EMP” means an Environmental Management Plan, satisfactory to the Bank, to be prepared by an independent environmental assessment expert and adopted by the Borrower, describing the mitigation, monitoring and institutional measures to be implemented in order to eliminate, offset or reduce any adverse environmental and social aspects in respect of the activities under Part I or Part II of the Project.


9. “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.


11. “MTC” means the Ministry of Transport and Communications of the Borrower, or any successor thereto.

13. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated March 27, 2008, 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.

14. “Project Operational Manual” means the manual referred to in Section 5.01 (a) of this Agreement, 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.

15. “RAP” means a Resettlement Action Plan, satisfactory to the Bank, to be prepared by an independent environmental assessment expert and adopted by the Borrower, describing the details for land acquisition, resettlement and rehabilitation in respect of the activities under Part I or Part II of the Project, as applicable.

16. “RPF” means the Resettlement Policy Framework satisfactory to the Bank and adopted by the Borrower on March 5, 2008, outlining the modalities for land acquisition, resettlement and rehabilitation in respect of the activities under Part I and Part II of the Project, as well as details for the preparation of the RAPs.

17. “SEA” means the Sectoral Environmental Assessment for the road sector satisfactory to the Bank and adopted by the Borrower on March 5, 2008, consisting of, *inter alia*: (i) an analysis of the environmental assessment institutional capacities of the road sector of the Borrower, as well as recommendations for improving the environmental assessment process in the road sector; (ii) the EAMF; and (iii) the RPF.

18. “Steering Committee” means the committee referred to in Section 5.01 (b) 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, a representative of the Association of the Municipalities, and a representative of the Ministry of Finance.

19. “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.