

CONFORMED COPY

LOAN NUMBER 4674 HR

Loan Agreement

(Real Property Registration and Cadastre Project)

between

REPUBLIC OF CROATIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated September 18, 2002

LOAN NUMBER 4674 HR

LOAN AGREEMENT

AGREEMENT, dated September 18, 2002, between REPUBLIC OF CROATIA (the Borrower) and 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, has requested the Bank to assist in the financing of the Project; and

(B) the Borrower intends to obtain from the European Union (the EU) a grant in an amount equivalent to Euro 5,000,000 to assist in carrying the Project on the terms and conditions set forth in the agreement to be entered into between the Borrower and the EU (the EU Grant Agreement); and

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;

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 Single Currency Loans" of the Bank, dated May 30, 1995 (as amended through October 6, 1999) (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 and the following additional terms have the following meanings:

(a) "Financial Monitoring Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(b) "LRMU" means a Land Registration Management Unit established within the MOJ pursuant to the Decree No. 4/2002 on Amendments to the Decree on the Structure of the Ministry of Justice, Administration and Local Self-Governance;

(c) “MOJ” means the Borrower’s Ministry of Justice, Administration and Local Self-Governance, or any legal successor thereto;

(d) “PIU” means the Project Implementation Unit referred to in paragraph 1 (b) of Schedule 5 to this Agreement;

(e) “SGA” means the State Geodetic Administration under the Borrower’s Ministry of Environmental Protection and Physical Planning, or any legal successor thereto; and

(f) “Special Account” means the account referred to in Section 2.02(b) of 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-six million Euro (EUR 26,000,000).

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 expenditures made (or, if the Bank shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and in respect of the fee referred to in Section 2.04 of this Agreement.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a commercial bank and on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2008, 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 fee in an amount equal to one percent (1%) of the amount of the Loan. 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 said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Loan not withdrawn from time to time.

Section 2.06. (a) 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 LIBOR Base Rate plus LIBOR Total Spread.

(b) For the purposes of this Section:

- (i) “Interest Period” means the initial period from and including the date of this Agreement to, but excluding, the first Interest Payment Date occurring thereafter, and after the initial period, each period from and including an Interest Payment Date to, but excluding the next following Interest Payment Date.
- (ii) “Interest Payment Date” means any date specified in Section 2.07 of this Agreement.
- (iii) “LIBOR Base Rate” means for each Interest Period, the London interbank offered rate for six-month deposits in Euro for value the first day of such Interest Period (or, in the case of the initial Interest Period, for value the Interest Payment Date occurring on or next preceding the first day of such Interest Period), as reasonably determined by the Bank and expressed as a percentage per annum.
- (iv) “LIBOR Total Spread” means, for each interest Period: (A) three fourths of one percent ($3/4$ of 1%); (B) minus (or plus) the weighted average margin for such Interest Period below (or above) the London interbank offered rates, or other reference rates for six-month deposits, in respect of the Bank’s outstanding borrowings or portions thereof allocated by the Bank to fund single currency loans or portions thereof made by it that include the Loan as reasonably determined by the Bank and expressed as a percentage per annum.

(c) The Bank shall notify the Borrower of LIBOR Base Rate and LIBOR Total Spread for each Interest Period, promptly upon the determination thereof.

(d) Whenever, in light of changes in market practice affecting the determination of the interest rates referred to in this Section 2.06, the Bank determines that it is in the interest of its borrowers as a whole and of the Bank to apply a basis for determining the interest rates applicable to the Loan other than as provided in said Section, the Bank may modify the basis for determining the interest rates applicable to

said Loan upon not less than six (6) months' notice to the Borrower of the new basis. The new basis shall become effective on the expiry of the notice period unless the Borrower notifies the Bank during said period of its objection thereto, in which case said modification shall not apply to said Loan.

Section 2.07. Interest and other charges shall be payable semiannually in arrears on May 15 and November 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.

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 carry out the Project with due diligence and efficiency and in conformity with appropriate administrative 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 shall carry out the Project in accordance with the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. Except as the Bank shall otherwise agree, procurement of the goods, works, technical services 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.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months before 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 shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Bank, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year audited, in accordance with auditing standards acceptable to the Bank, consistently applied, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank as soon as available, but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning such records and accounts, and the audit thereof, 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 Financial Monitoring Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Bank has received the audit report for 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;
- (iii) enable the Bank's representatives to examine such records; and

- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 5 to this Agreement, the Borrower shall prepare and furnish to the Bank a Financial Monitoring Report (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 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 event is specified:

(a) The EU Grant Agreement shall have failed to become effective by June 30, 2003, 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;

- (b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to use the EU Grant made to the Borrower for the carrying out of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the EU Grant Agreement providing therefor.
- (ii) Subparagraph (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 the EU Grant 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

- (c) Effectiveness Date; Termination

Section 6.01. The following event is specified as a condition to the effectiveness of the Loan within the meaning of Section 12.01 (c) of the General Conditions, namely that the Borrower shall have submitted to the Bank a decision of Co-Chairpersons of the Project Steering Committee, satisfactory to the Bank, defining the status, functions, decision-making process and reporting arrangements for the Project Steering Committee and the PIU.

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:

Ministry of Finance
Katančeva 5
10000 Zagreb
Croatia

Telex:

862-21215
862-28133

Facsimile:

385-1-492-2583

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

REPUBLIC OF CROATIA

By /s/ Mato Crkvenac

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Andrew N. Vorkink

Director
South Central Europe Country Unit
Europe and Central Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

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	400,000	82%
(2)	Goods	6,250,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3)	Technical services	10,400,000	82%
(4)	Consultants' services, audit and training	5,950,000	100% of expenditures incurred by foreign consultants and 75% of expenditures incurred by local consultants
(5)	Service contracts	800,000	82%
(6)	Operating costs	1,200,000	70% of expenditures incurred prior to December 31, 2003; 50% of expenditures incurred prior to December 31, 2004; and 30% of expenditures incurred thereafter
(7)	Fee	260,000	Amount due under Section 2.04 of this Agreement
(8)	Unallocated	<u>740,000</u>	
	TOTAL	<u>26,000,000</u> =====	

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 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 or services supplied from the territory of the Borrower;

(c) the term “training” means expenditures incurred on the account of the training activities under the Project and includes trainees’ fees, transportation costs for trainees and trainers, per diem allowances for trainees and trainers, cost of study tours and translation;

(d) the term “technical services” means services for carrying out cadastre surveying, orthophoto mapping, development of information technology systems and other services to be contracted under the Project on the basis of performance of measurable physical outputs;

(e) the term “service contracts” means the cost of services for carrying out data entry and verification, typing and clerical work in land registry offices of municipal courts; and

(f) the term “operating costs” means: (i) incremental operating costs incurred on account of Project implementation by the PIU, Institutional Teams and LRMU, including communications costs, transportation costs, fuel, vehicle maintenance, office equipment and supplies, equipment maintenance and audit costs; and (ii) travel costs and per diem allowances for the staff of municipal courts assigned to work in different locations.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals under categories (2), (4) and (6), in an aggregate amount not exceeding the equivalent of Euro 260,000, may be made on account of payments made for expenditures incurred before that date but after February 1, 2002.

4. The Bank may require withdrawals from the Loan Account to be made on the basis of statements of expenditure for: (a) works under contracts costing less than the equivalent of \$600,000 each; (b) goods and technical services under contracts costing less than the equivalent of \$300,000 each; (c) services provided by consulting firms under contracts costing less than the equivalent of \$200,000 each; (d) services provided by individual consultants under contracts costing less than the equivalent of \$50,000 each; and (e) training and operating costs, all under such terms and conditions as the Bank shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in developing an efficient land administration system in order to improve functioning of real property markets through enhancing the land registration and cadastre systems.

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: Real Property Registration System Development

1. Provision of technical assistance and equipment to the Land Registration and Management Unit (LRMU) within the MOJ.
2. Streamlining and computerization of the demand-driven and systematic land registration processes in municipal courts through provision of computer equipment, software development of necessary methodologies, implementation of a strategy to manage and reduce the volume of paper records in the land book offices, including through their conversion into digital format, and the formulation of activity plans for the municipal courts.
3. Provision of technological and technical support for managing and administering the information systems in municipal courts and the LRMU, including the provision of “help-desk” facilities.
4. Assistance in the implementation of a registration backlog alleviation program to clear backlogs in the land registry offices of municipal courts, including the use of contracted workers for conversion of paper records into digital format, data verification and entry and other measures.
5. Assistance in the development and implementation of a program of legal assistance for the most disadvantaged citizens in the area of property rights.

Part B: Cadastre System Development

1. Provision of assistance to the State Geodetic Administration (SGA) and to the Zagreb City Cadastre Office to streamline and develop new technical standards and regulations for the cadastre system and for the development and implementation of a strategy to manage and reduce paper records in the cadastre system, and to develop and implement business and corporate plans.

2. Provision of technological support and technical assistance to selected regional branches of the SGA and the Zagreb City Cadastre Office in administering information systems, including the provision of “help-desk” facilities.
3. Provision of assistance to the SGA to develop and implement a multipurpose spatial information system through the provision of technical assistance, IT system design and equipment, training, and data conversion contracts.
4. Provision of equipment and technical assistance for the SGA headquarters, regional and branch cadastre offices, the Croatian Geodetic Institute and the Zagreb City Cadastre Office and implementation of quality control mechanisms.

Part C: Inter-Institutional Operations and Information Technology

1. Provision of assistance for the initial data verification, entry and conversion into the land registration systems based on electronic data processing of existing data, stored in the land books.
2. Carrying out of cadastral mapping and land book renewal including: (a) aerial mapping; (b) systematic cadastre surveys; (c) matching and resolving conflicting parcel and land holder information between the two systems; and (d) the final production of new cadastre registers and maps, and land book renewals.
3. Design and implementation of joint information and communication technology systems for the SGA offices, MOJ, Zagreb City Cadastre Office and land registries in the municipal courts.

Part D: Project Management, Training and Monitoring

1. Provision of technical assistance and training to the PIU, MOJ and SGA for project management, including in the areas of: project planning, procurement, disbursement, project financial management (including the budgetary process), monitoring and evaluation, information technology, and reporting.
2. Provision of training to the MOJ, SGA, LRMU and the Zagreb City Municipal Office and land registries in municipal courts, including in the areas of basic computer skills, cadastre, property registration, information technologies, land law, and management and marketing,
3. Analysis of the existing legal framework for certain areas of real estate, including, *inter alia*, registration procedures for buildings, apartment and business premises, including common property and adjacent land; registration of buildings constructed without construction permit; mortgage registration, and methods of limiting disputed cases going to court, and assistance in strengthening and improving the legal framework in those areas.

4. Design and implementation of information technology/information management and communications strategies for the MOJ and the municipal court land registry offices, and the SGA and its regional and branch offices, and the Zagreb City Cadastre Office.
5. Carrying out public awareness campaign at both national and local levels targeting land-holders and professionals, with a focus on building awareness of property rights and duties, registration obligations and encouraging participation and awareness of cadastre and registration.
6. Development of strategies and testing of improved service approaches for customers and land holders by joint approaches in information marketing in both the real property registry and cadastre registration offices including the development and testing of one-stop-shop concepts.
7. Provision of assistance to conduct pilot projects in apartment registration testing combined the SGA and MOJ approaches aimed at simplifying the existing registration procedures and evaluation of the pilots, and the development and implementation of new guidelines and regulations.
8. Provision of assistance to the PIU and the Institutional Teams in the SGA and MOJ in Project monitoring and reporting, including carrying out of customers' surveys.

* * *

The Project is expected to be completed by March 30, 2008.

SCHEDULE 3

Amortization Schedule

<u>Date Payment Due</u>	<u>Payment of Principal (Expressed in Euro*)</u>
On each May 15 and November 15, beginning May 15, 2008 through November 15, 2017	1,300,000

SCHEDULE 4

Procurement

Section I. Procurement of Goods, Works and Technical Services

Part A: General

Goods, works and technical services shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods, works and technical services shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Two-stage bidding procedure

The bidding procedure for goods and technical services for design and implementation of information systems, supply of customized software, data entry design for the cadastre and the registration system in the municipal courts shall be carried out in two stages in accordance with the provision of paragraph 2.6 of the Guidelines.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Works estimated to cost less than \$600,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, (b) goods estimated to cost less than \$150,000 equivalent per contract up to an aggregate amount not to exceed \$400,000 equivalent, and (c) technical services estimated to cost less than \$400,000 equivalent per contract, up to an aggregate amount not to exceed \$11,500,000 equivalent, may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

(a) Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$1,150,000 equivalent, and (b) technical services estimated to be cost less than \$100,000 equivalent per contract not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. National Shopping

(a) Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, and (b) technical services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

4. Procurement of Small Works

(a) Works estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, and (b) technical services estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Bank, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

5. Direct Contracting

Goods which are of a proprietary nature, or must be purchased from the original supplier to be compatible with the existing equipment, and costing \$3,200,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Bank of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods and works to be procured in accordance with the provisions of Part B of this Section; and (ii) the first contract for works and technical services to be procured in accordance with the provision of Part C.1 of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract for: (i) goods and technical services procured under Part C.2 and C.3 of this Section; and (ii) small works procured under Part C.4, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Bank a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under international shopping procedures, the Borrower shall provide to the Bank a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto, and the following provisions of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for carrying out an audit of the Project accounts and estimated to cost less than \$200,000 equivalent per contract up to an aggregate amount of \$400,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Single-Source Selection

Services for further development of proprietary software estimated to cost less than \$400,000 equivalent in aggregate, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultants Guidelines.

5. Service Delivery Contractors

Services to be provided by clerks and other contractors under Part B of the Project shall be procured in accordance with procedures acceptable to the Bank, whereby jobs shall be advertised locally and the employment terms and unit costs for contractors shall be agreed upon with the Bank.

Part C: Review by the Bank of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Bank for its review and approval, prior to the issuance of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, estimated to cost more than the equivalent of \$50,000, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Bank for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 5

Implementation Program

1. During the execution of the Project, the Borrower shall:
 - (a) maintain the PIU with resources, functions and responsibilities acceptable to the Bank and with staff, whose qualifications, experience and terms of reference shall be satisfactory to the Bank;
 - (b) maintain the Project Steering Committee co-chaired by appointed representatives of the MOJ and SGA and comprising other representatives agreed upon with the Bank, including the Project Director, which shall be responsible for overseeing and evaluating the Project implementation and performing its functions based on the terms of reference satisfactory to the Bank;
 - (c) maintain Institutional Teams within the MOJ and SGA which shall provide guidance, monitor and supervise the work of the PIU; and
 - (d) maintain the Working Group comprising, *inter alia*, representatives of the MOJ, SGA, land registries in the municipal courts, SGA regional offices and the Zagreb Municipal Court Registry Office, and the Zagreb Cadastre Office which shall provide advice on Project implementation to the Project Steering Committee, PIU, MOJ and SGA.
2. The Borrower shall:
 - (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, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (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, by February 10, 2006, or such later date as the Bank shall request, the report referred to in subparagraph (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.

3. The Borrower shall maintain the LRMU within the MOJ, with a mandate, staff, financial and other resources satisfactory to the Bank, and which shall, *inter alia*, oversee the implementation of Part A of the Project in association with the PIU, and the implementation of Parts C and D of the Project in association with the SGA and the PIU.
4. Not later than March 31, 2003, the Borrower shall furnish to the Bank adopted guidelines, satisfactory to the Bank, providing instructions to cadastre offices, the surveyors and the registry offices on conducting surveys, mapping and proprietary information collection in forest areas in a manner that ensures support for a long-term sustainable protection of forests.
5. The Borrower shall: (a) cause the SGA and, through the LRMU, municipal courts to develop, not later than June 30, 2004, activity plans for carrying out their cadastre and property registration functions, respectively, including, but not limited to, the analysis of projected operating expenses and revenues to be generated by their respective activities; and (b) ensure that implementation of the above-referenced activity plans will commence not later than January 31, 2005.
6. Not later than January 31, 2004, the Borrower shall furnish to the Bank regulations, satisfactory to the Bank, setting forth modified procedures for efficient and expedient registration of buildings, apartments, adjacent land and common property; and thereafter implement these within an agreed timetable.
7. The Borrower shall: (a) not later than December 31, 2003, develop an information technology and information management strategy, satisfactory to the Bank, and (b) commence its implementation by February 28, 2004.
8. Not later than November 30 of each year during Project implementation, commencing from November 30, 2002, the PIU shall prepare and furnish to the Bank and the Project Steering Committee, an annual working plan for the Project, including the budget and procurement plan, all satisfactory to the Bank and the Project Steering Committee.

SCHEDULE 6

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works, services and incremental operating costs required for the Project and to be financed out of the proceeds of the Loan allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to Euro 1,000,000 to be withdrawn from the Loan Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Bank shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to Euro 500,000 until the aggregate amount of withdrawals from the Loan Account plus 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 exceed the equivalent of Euro 3,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Bank has received evidence satisfactory to it that the Special Account has been duly opened, 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 do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Bank requests for deposits into the Special Account at such intervals as the Bank shall specify.

(ii) 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 paragraph 4 of this Schedule 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. All such deposits shall be withdrawn by the Bank from the Loan Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. 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.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Bank shall have determined that all further withdrawals should be made by the Borrower directly from the Loan Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Loan allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Bank pursuant to Section 5.02 of the General Conditions, shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Loan Account of the remaining unwithdrawn amount of the Loan allocated to the eligible Categories 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.

6. (a) If the Bank shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank: (A) provide such additional evidence as the Bank may request; or (B) 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 or the portion thereof not so eligible or justified. 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 shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.