

CONFORMED COPY

CREDIT NUMBER 3029 BOS

Project Agreement

(Emergency Natural Gas System Reconstruction Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

SARAJEVOGAS SARAJEVO

Dated January 20, 1998

CREDIT NUMBER 3029 BOS

PROJECT AGREEMENT

AGREEMENT, dated January 20, 1998 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and SARAJEVOGAS SARAJEVO (SARAJEVOGAS).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Bosnia and Herzegovina (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to seven million three hundred thousand Special Drawing Rights (SDR 7,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Sarajevogas agree to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary credit agreement to be entered into among the Borrower, the Federation and Sarajevogas, the Borrower will make available to the Federation a portion of the proceeds of the Credit provided for under the Development Credit Agreement and the Federation will make available said portion of the proceeds of the Credit to Sarajevogas on terms and conditions set forth in said Subsidiary Credit Agreement; and

WHEREAS Sarajevogas, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of Parts A, B and C of the Project

Section 2.01. (a) Sarajevogas declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Parts A, B and C of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, public utility and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Parts A, B and C of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Sarajevogas shall otherwise agree, Sarajevogas shall carry out Parts A, B and C of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree:

(a) procurement of the goods, works and consultants' services required for Parts A, B (except for Parts B.1 (f) and B.2 (f)) and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement; and

(b) procurement of the works required for Parts B.1 (f) and B.2 (f) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Section I.B.1 of Schedule 3 to the Development Credit Agreement dated July 1, 1996 (Credit No. 2905 BOS) for the Emergency Landmines Clearance Project between Bosnia and Herzegovina and the International Development Association, except that with respect to the first two contracts for works under said Parts B.1 (f) and B.2 (f) of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 of the Guidelines pertaining to prior review shall apply.

Section 2.03. Sarajevogas shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Parts A, B and C of the Project.

Section 2.04. Sarajevogas shall duly perform all its obligations under the Subsidiary Credit Agreement. Except as the Association shall otherwise agree, Sarajevogas shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Credit Agreement or any provision thereof.

Section 2.05. (a) Sarajevogas shall, at the request of the Association, exchange views with the Association with regard to the progress of Parts A, B and C of the Project, the performance of its obligations under this Agreement and under the Subsidiary Credit Agreement, and other matters relating to the purposes of the Credit.

(b) Sarajevogas shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Parts A, B and C of the Project, the accomplishment of the purposes of the Credit, or the performance by Sarajevogas of its obligations under this Agreement and under the Subsidiary Credit Agreement.

Section 2.06. Sarajevogas 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 Association, the carrying out of Parts A, B and C of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to a paragraph

(a) of this Section, on the progress achieved in the carrying out of said Parts A, B and C of the Project during the period preceding the date of such report and setting out the measures recommended to ensure the efficient carrying out of said Parts A, B and C of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by July 30, 1998, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of said Parts A, B and C of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

Section 2.07. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, Sarajevogas shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and Sarajevogas, a plan for the future operation of Parts A, B and C of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with Sarajevogas on said plan.

ARTICLE III

Management and Operations of Sarajevogas

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

Section 3.02. Sarajevogas shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound financial, engineering, public utility and environmental practices.

Section 3.03. Sarajevogas shall take out and maintain with responsible insurers, or make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01 (a) Sarajevogas shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition.

(b) Sarajevogas shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, who shall be employed by March 31, 1998, on terms and conditions satisfactory to the Association;

(ii) furnish to the Association, 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 its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records, accounts and financial statements as well as the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Effective Date; Termination
Cancellation and Suspension

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

Section 5.02. (a) This Agreement and all obligations of the Association and of Sarajevogas thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Sarajevogas of this event.

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

ARTICLE VI

Miscellaneous Provisions

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

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

For Sarajevogas:

Sarajevogas
Muhameda ef. Pundze 4
71000 Sarajevo
Bosnia and Herzegovina

Section 6.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Sarajevogas or by Sarajevogas on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Director General, or by such other person or persons as he/she shall designate in writing, and he/she shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ R. O'Sullivan

Acting Regional Vice President
Europe and Central Asia

SARAJEVOGAS SARAJEVO

By /s/ S. Selmanovic

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

2. Section II of the Guidelines is modified to provide that: (i) the General Procurement Notice (GPN) shall also be published in the local press; (ii) individual advertisement for specific contracts shall also be published in the local press; (iii) the period allowed for submission of bids shall be four (4) weeks; and (iv) bid and payment currency shall be limited to one currency widely used in international trade.

3. 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 and procured under contracts awarded in accordance with paragraph 1 of this Part B.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods estimated to cost \$500,000 equivalent or more per contract but less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent, which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. In addition, the list of suppliers to be invited shall include, inter alia, the suppliers who express interest in response to the General Procurement Notice referred to in paragraph 2.7 of the Guidelines.

2. National Competitive Bidding

Works estimated to cost less than \$2,000,000 equivalent per contract, up to an aggregate amount not to exceed \$7,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines with the following modifications:

- (i) general prequalification will be carried out through advertising in the local press. The list of prequalified bidders will be updated from time to time as a result of new expression of

interest and information submitted by qualified contractors;

- (ii) prequalified bidders will be allowed a minimum of four (4) weeks to submit their bids;
- (iii) bidding documents will follow the formats of the national competitive bidding documents agreed with the Association;
- (iv) foreign bidders will be allowed to submit bids;
- (v) bids will be submitted in sealed envelopes, and both mailed and hand-carried bids will be accepted;
- (vi) all bids will be opened at the same time in public;
- (vii) contracts will be awarded to the lowest evaluated bidder; and
- (viii) bidders will not be asked, nor allowed to change the substance of their bids after the bid closing date, and price negotiations with the lowest evaluated bidder will be confined to those cases listed in the Guidelines.

3. International Shopping

Goods estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 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 and using standard documentation agreed with the Administrator.

4. National Shopping

Goods estimated to cost \$100,000 equivalent or less per contract 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.

5. Direct Contracting

Goods which are of a proprietary nature or where direct compatibility with the installed equipment is required may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to each contract procured under Parts B, C.1 and C.2 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract procured under Parts C.3 and C.5 of this Schedule; and (ii) each contract estimated to cost more than \$50,000 equivalent and procured under Part C.4 of this Schedule, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2 (f) and 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 (the Consultant Guidelines) and following provisions of Section II of this Schedule.

Part B: Quality-and Cost-based Selection

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.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services for staff strengthening, system planning, the sector restructuring study and the tariff study under Part C of the Project, up to an aggregate amount not to exceed \$1,100,000 equivalent, shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Expert services for quality control and other services approved by the Association under Part A of the Project which are estimated to cost less than \$100,000 equivalent per contract, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Prior Review

(a) With respect to each contract for the employment of consulting firms, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after said approval shall have been given.

SCHEDULE 2

Implementation Program

1. Sarajevogas shall maintain the PIU with staffing and resources acceptable to the Association.

2. Sarajevogas shall coordinate with the PMAU for purposes of monitoring and audit of procurement activities in respect of Parts A, B and C of the Project.

3. (a) Sarajevogas shall put into effect a billing and collection system resulting in the collection from its customers of at least sixty percent (60%), one hundred percent (100%), and one hundred forty percent (140%) of the total current cash operating expenses of Sarajevogas in calendar years 1997, 1998 and 1999, respectively. For the purposes of this paragraph, the term "total current cash operating expenses" means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding depreciation and interest and other charges on debt.

(b) Before June 30 in each year, commencing in 1998, Sarajevogas shall, on the basis of forecasts prepared by Sarajevogas and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) above in respect of such year and the next following calendar year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that Sarajevogas would not meet the requirements set forth in paragraph (a) above for the calendar years covered by such review, Sarajevogas shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its rates) in order to meet such requirements.

