

CONFORMED COPY

CREDIT NUMBER 3071 BOS

Development Credit Agreement

(Second Electric Power Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated as of June 11, 1998

CREDIT NUMBER 3071 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated as of June 11, 1998, between BOSNIA AND HERZEGOVINA (the Borrower or BiH) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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 Association to assist in the financing of the Project;

(B) Parts A and D.1 of the Project will be carried out by the Federation of Bosnia and Herzegovina (the Federation) through Elektroprivreda Bosnia and Herzegovina (EPBiH) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to EPBiH a portion of the proceeds of the Credit as provided in this Agreement;

(C) Parts B and D.2 of the Project will be carried out by Republika Srpska (RS) through Elektroprivreda Republika Srpska (EPRS) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to EPRS a portion of the proceeds of the Credit as provided in this Agreement;

(D) Parts C and D.1 of the Project will be carried out by the Federation through Elektroprivreda Mostar (EPM) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to the EPM a portion of the proceeds of the Credit as provided in this Agreement;

(E) In order to assist in financing Part E of the Project, the Borrower intends to enter into agreements (the Cofinancing Agreements) with other external

agencies, providing the Borrower with a total amount (the Cofinancing Amount) equivalent to about \$108,000,000; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Federation/EPBiH/EPM Project Agreement and the RS/EPRS Project Agreement, of even date herewith between the Association and Federation/EPBiH/EPM and between the Association and RS/EPRS, respectively;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as amended through December 2, 1997 (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) "EPBiH" means Elektroprivreda Bosnia and Herzegovina, a legal entity established pursuant to its Charter and existing under the laws of the Borrower, and includes any successor or successors thereto acceptable to the Association.

(b) "Federation/EPBiH/EPM Project Agreement" means the agreement between the Association and Federation, EPBiH and EPM, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation/EPBiH/EPM Project Agreement.

(c) "Federation/EPBiH Subsidiary Loan Agreement" means the agreement to be entered or entered into between the Borrower and Federation/EPBiH pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Federation/EPBiH Subsidiary Loan Agreement.

(d) "EPM" means Elektroprivreda Mostar, a legal entity established pursuant to its Charter and existing under the laws of the Federation, and includes any successor or successors thereto acceptable to the Association.

(e) "EPRS" means Elektroprivreda Republika Srpska, a legal entity established pursuant to its Charter and existing under the laws of RS, and includes any successor or successors thereto acceptable to the Association.

(f) "Federation" means the Federation of Bosnia and Herzegovina, a political sub-division of the Borrower, and includes any successor or successors thereto.

(g) "Federation/EPM Subsidiary Loan Agreement" means the agreement to be entered or entered into between the Borrower and Federation/EPM pursuant to Section 3.01(d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Federation/EPM Subsidiary Loan Agreement.

(h) "PIP" means the Project Implementation Plan for the Project, dated February 26, 1998, as the same may be amended from time to time with the agreement of the Borrower and the Association.

(i) "Federation PIU" means the Project Implementation Unit referred to in paragraph 1 of the Schedule to the Federation/EPBiH/EPM Project Agreement.

(j) "RS PIU" means the Project Implementation Unit referred to in paragraph 1 of the Schedule to the RS/EPRS Project Agreement.

(k) "Republika Srpska" or "RS" means the Republika Srpska, a political sub-division of the Borrower, and includes any successor or successors thereto.

(l) "RS/EPRS Project Agreement" means the agreement between the Association and RS/EPRS, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS/EPRS Project Agreement.

(m) "RS/EPRS Subsidiary Loan Agreement" means the agreement to be entered or entered into between the Borrower and RS/EPRS pursuant to Section 3.01(c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the RS/EPRS Subsidiary Loan Agreement.

(n) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighteen million five hundred thousand Special Drawing Rights (SDR 18,500,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of Parts A, B and C of the Project, open and maintain in Deutsche Marks, two special deposit accounts: Special Account A for Parts A, C and D(1) of the Project, and Special Account B for Parts B and D(2) of the Project, in a commercial bank or banks, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 1 and December 1, commencing June 1, 2008, and ending December 1, 2032. Each installment to and including the installment payable on December 1, 2017, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the

level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the loan/grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Federation/EPBiH/EPM and RS/EPRS, to perform in accordance with the provisions of the Federation/EPBiH/EPM Project Agreement and the RS/EPRS Project Agreement, respectively, all the obligations of the Federation/EPBiH/EPM and RS/EPRS, therein set forth, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation/EPBiH/EPM and RS/EPRS, to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Parts A and D.1 of the Project, the Borrower shall relend a portion of the proceeds of the Credit amounting to SDR 8,360,000 equivalent to EPBiH under a subsidiary loan agreement to be entered into between the Borrower and the Federation/EPBiH under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

(i) the principal amount of the subsidiary loan shall be repaid by the EPBiH to the Borrower in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and the Federation/EPBiH in equal semi-annual installments over twenty years, including a grace period of five years;

(ii) the principal amount of the Subsidiary Loan repayable by EPBiH shall be the equivalent in Deutsche Marks or in any such other currency as may be selected under paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on accounts of the Federation/EPBiH Subsidiary Loan Agreement; and

(iii) interest shall be charged on the outstanding balance of the subsidiary loan at a rate equal to the rate of the service charge payable by the Borrower under Section 2.05 of this Agreement.

(c) For the purposes of Parts B and D.2 of the Project, the Borrower shall

relend a portion of the proceeds of the Credit amounting to SDR 5,550,000 equivalent to EPRS under a subsidiary loan agreement to be entered into between the Borrower and RS/EPRS under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the subsidiary loan shall be repaid by RS/EPRS in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and RS/EPRS in equal semi-annual installments over twenty years, including a grace period of five (5) years;
- (ii) the principal amount of the Subsidiary Loan repayable by the RS/EPRS shall be the equivalent in Deutsche Marks or in any such other currency as may be selected under Paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on accounts of the RS/EPRS Subsidiary Loan Agreement; and
- (iii) interest shall be charged on the outstanding balance of the subsidiary loan at a rate equal to the rate of the service charge payable by the Borrower under Section 2.05 of this Agreement.

(d) For the purposes of Parts C and D.1 of the Project, the Borrower shall relend the proceeds of the Credit amounting to SDR 4,590,000 equivalent to EPM under a subsidiary loan agreement to be entered into between the Borrower and the Federation/EPM under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the subsidiary loan shall be repaid by EPM in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and the Federation/EPM in equal semi-annual installments over twenty years, including a grace period of five years;
- (ii) the principal amount of the Subsidiary Loan repayable by EPM shall be the equivalent in Deutsche Marks or in any such other currency as may be selected under paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on accounts of the Federation/EPM Subsidiary Loan Agreement; and
- (iii) interest shall be charged on the outstanding balance of the subsidiary loan at a rate equal to the rate of the service charge payable by the Borrower under Section 2.05 of this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower 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 Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. The Borrower and the Association hereby agree that 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, respectively) in respect of Parts A, C and D.1 of the Project shall be carried out by the Federation/EPBiH/EPM, and in respect of Parts B and D.2 of the Project shall be carried out by RS/EPRS, pursuant to Section 2.04 of each of the Federation/EPBiH/EPM Project Agreement and the RS/EPRS Project Agreement.

Section 3.05. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in the PIP, the carrying out 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 April 30, 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by July 31, 1999, 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 the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association views on the matter.

Section 3.06. Without prejudice to any of its obligation to the Bank or the Association under any loan or credit either as borrower or guarantor, the Borrower shall, by December 31, 1998, apportion all electric power sector debts to the Bank and the Association among EPBiH, EPRS and EPM respectively and determine the terms and conditions of repayment.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditures, the Borrower shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and
- (ii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) (i) of this Section, including those for the Special Accounts, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably requested.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) The Federation or EPBiH or EPM shall have failed to perform any of its

obligations under the Federation/EPBiH/EPM Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation or EPBiH or EPM will be able to perform its obligations under the Federation/EPBiH/EPM Project Agreement.

(c) RS or EPRS shall have failed to perform any of its obligations under the RS/EPRS Project Agreement.

(d) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that RS/EPRS will be able to perform its obligations under the RS/EPRS Project Agreement.

(e) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation/EPM will be able to perform its obligations under the Federation/EPM Project Agreement.

(f) The Cofinancing Agreements shall have failed to become effective by December 31, 1998, or such later date or dates as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association 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.

(g) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (g)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (a)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Federation/EPBiH Subsidiary Loan Agreement, the RS/EPRS Subsidiary Loan Agreement and the Federation/EPM Subsidiary Loan Agreement have been executed on behalf of the parties thereto.

(b) Auditors have been appointed pursuant to and in accordance with Section 4.01(b) of this Agreement and Section 4.01(b) of the Federation/EPBiH/EPM Project Agreement and the RS/EPRS Project Agreement.

United States of America

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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.

BOSNIA AND HERZEGOVINA

By /s/ Alija Izetbegovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Saumya Mitra

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods under		100% of foreign expenditures, 100%
(a) Part A of the Project	8,280,000	of local expendi- tures (ex-factory cost) and 85% of
(b) Part B of the Project	5,450,000	local expenditures for other items procured locally
(c) Part C of the Project	4,510,000	
(2) Incremental operating costs under		100%
(a) Part D(1) of the Project	160,000	
(b) Part D(2) of the Project	100,000	
TOTAL	18,500,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods 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; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "incremental operating costs" means the incremental expenses incurred by the Federation PIU and the RS PIU, on account of Parts A and C, and Part B, respectively, of the Project for staff salaries (excluding salaries of officials of the Borrower), office facilities, services, staff travel and consumable office supplies as agreed by the Association.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods, under contracts costing less than \$300,000 equivalent, and all incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to restore electric power in Bosnia and Herzegovina (BiH) on the least cost basis and to improve cost recovery of various power companies in BiH.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

PART A: TUZLA THERMAL POWER PLANT IN THE FEDERATION

1. Rehabilitation of common facilities and maintenance of the 32 MW cogeneration units in the Tuzla Thermal Power Plant.

PART B: POWER PLANTS IN THE RS

1. Rehabilitation of the turbine/generator bearings and control equipment in the Bocac Hydropower Plant.

2. Rehabilitation of the turbine/generator, repair and upgrade of electrostatic precipitator, environmental protection at the ash yard, and provision of spare parts for the coal delivery machine and water temperature control in the Gacko Thermal Power Plant.

3. Overhaul of the dam monitoring system, instrumentation and control, and replacement of worn out maintenance equipment and tools in the Trebinje 1 and 2 Hydropower Plants.

PART C: OTHER POWER PLANTS IN THE FEDERATION

1. Rehabilitation of the 220 kV substation in the Rama Hydropower Plant.

2. Rehabilitation of the electrical equipment in the Jajce Hydropower Plant (Second Phase).

3. Replacement of the damaged air compressor in the Capljina Hydropower Plant.

PART D: INSTITUTIONAL SUPPORT

1. Supply of office equipment and supplies and provision of a part of the operating costs of the Federation PIU.

2. Supply of office equipment and supplies and provision of a part of the operating costs of the RS PIU.

PART E: OTHER PROJECT ACTIVITIES NOT FINANCED UNDER THE CREDIT

1. Rehabilitation of common facilities of the plant and maintenance of the 32 MW

cogeneration units in the Kakanj Thermal Power Plant (Second Phase).

2. Provision of spare parts for boiler maintenance, and replacement of worn out maintenance equipment and tools in the Ugljevik Thermal Power Plant.

3. Rehabilitation of transmission facilities between the Federation and RS: (a) Provision of communication and metering equipment for power exchanges, and control equipment for existing 110 kV and 220 kV transmission lines; (b) provision of equipment for urgent protection measures on existing 220/110 kV transmission lines; (c) provision of equipment and materials for rehabilitation of the 400 kV transmission lines (Tuzla-Sarajevo, Sarajevo-Mostar, Mostar-Gacko, and Visegrad-Tuzla); (d) rehabilitation of 220 kV lines (Tuzla-Gradacac-Djakovo); and (e) rehabilitation of the Doboje and Tuzla regions' 110 kV ring connections.

4. Rehabilitation of transmission facilities in the Federation: (a) Gradacac substation (220/110 kV); and (b) 110 kV transmission line from Mostar to Stolac.

5. Rehabilitation of transmission facilities in RS: Rehabilitation of: (a) the 110 kV Brcko 2 and Srebrenica substations; and (b) the 110 kV transmission lines (Konjevik Polje-Srebrenica, Banja Luka 6 - Prijedor 5, Banja Luka-Gradiska, and Pale-Gorazde).

6. Rehabilitation of distribution networks in the Federation: Rehabilitation of 35, 20, 10 and 0.4 kV networks in the areas of Unsko-Sanski, Posavski, Tuzlansko-Podrinjski, Zenicko-Dobojski, Srednjobosanski, Sarajevo and Zapadnobosanski.

7. Rehabilitation of distribution networks in RS: Rehabilitation of 35, 20, 10 and 0.4 kV networks in the areas of Bijeljina, Pale, Trebinje, Doboje and Banja Luka.

8. Provision of technical assistance for undertaking: (a): (i) an electric power transmission and institutional rehabilitation study; and (ii) a coal sector restructuring study; and (b) engineering and project management support.

9. Provision of equipment and materials to coal mines in the Federation: (a) Tuzla Coal Mines (RUT): Provision of materials, spare parts and auxiliary equipment for the Banovici, Sikulje and Dubrave surface mines and the Mramor underground mine; and (b) Central Bosnia Coal Mines (RUSB): Provision of auxiliary equipment and spare parts for the Vrtliste surface mine and the Breza underground mine.

10. Provision of equipment and materials to the Coal Mines in RS: Provision of materials, spare parts and auxiliary equipment for the Gacko and Ugljevik surface mines.

* * *

The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

Goods 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 and September 1997 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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 to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each.

(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.

(c) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods of specialized nature, estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$2,850,000 equivalent, and goods, 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.

2. International Shopping

Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$1,350,000 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

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$150,000 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.

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 Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract under Parts B.1 and C.1 hereof, estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract under Parts C.2 and C.3 hereof, estimated to cost the equivalent of \$50,000 or more, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures 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 or shopping procedures, 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 D, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

SCHEDULE 4

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of Special Account A Categories 1(a) and (c) and 2(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and in the case of Special Account B Categories 1(b) and 2(b) set forth in the said table;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for the Project and to be financed out of the proceeds of the Credit 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 to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent, in the case of Special Account A to 1,300,000 Deutsche Marks, and in the case of Special Account B to 450,000 Deutsche Marks.

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

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective 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 respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit 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 respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association 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 Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit 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 Association, 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 Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association 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 Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any 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 Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any 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 Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

