

CONFORMED COPY

TF 024040

Trust Fund Grant Agreement

(Emergency Education Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

(Acting as Trustee of the Trust Fund
for Bosnia and Herzegovina)

Dated May 20, 1996

TF 024040

TRUST FUND GRANT AGREEMENT

AGREEMENT, dated May 20, 1996 between BOSNIA and HERZEGOVINA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), acting as trustee (the Trustee) of the Trust Fund for Bosnia and Herzegovina as hereinbelow described.

WHEREAS (A) the Board of Governors of the International Bank for Reconstruction and Development, acting on the recommendation of its Board of Executive Directors, decided on February 23, 1996, to transfer from Bank surplus, by way of grant, \$150,000,000 to a trust fund for Bosnia and Herzegovina (the Trust Fund), established by Resolutions of the Executive Directors of the Bank (Resolution No. 96-1) and the Trustee (Resolution No. IDA 96-1) and to be administered by the Trustee, to be used for financing an emergency reconstruction program in the territory of the Recipient; and

(B) the Recipient has requested the Trustee to assist in financing the project described in Schedule 2 to this Agreement (the Project);

(C) the Recipient has requested from the Association a development credit in an aggregate principal amount of \$5,000,000 equivalent Special Drawing Rights to assist in financing of the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and the Association; and

WHEREAS the Trustee has agreed, on the basis, inter alia, of the foregoing to extend the Grant to the Recipient 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 set forth in Schedule 6 to this Agreement (the General Conditions) constitute an integral part of this Trust Fund Grant Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the Preamble to this Agreement and the General Conditions, set forth in Schedule 6 to this Agreement, have the respective meanings therein set forth and the following additional terms have the following meanings:

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

(b) "Federation MOE" means the Ministry of Education, Science, Culture and Sports of the Federation, and includes any successor or successors thereto;

(c) "PCU" means the Project Coordination Unit to be established within the Federation MOE pursuant to Section 5.01 (b) of this Agreement;

(d) "Republika Srpska" means the Republika Srpska, a political subdivision of the Recipient, and includes any successor or successors thereto;

(e) "RS MOE" means the Ministry of Education, Science, Culture and Sports of the Republika Srpska, and includes any successor or successors thereto;

(f) "Subsidiary Grant Agreement" means the agreement to be entered into between the Recipient and the Federation pursuant to Section 3.01 (a) of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Grant Agreement; and

(g) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. The Trustee agrees to make available to the Recipient, on a grant basis, an amount in various currencies equal to five million dollars (\$5,000,000).

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

(b) The Recipient may, for the purposes of Parts A, B and C.1 of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Trustee, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 1998 or such later date as the Trustee shall establish. The Trustee shall promptly notify the Recipient of such later date.

ARTICLE III

Execution of the Project

Section 3.01. The Recipient declares its commitment to the objectives of the

Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) (i) shall cause Parts A, B and C.1 of the Project to be carried out by the Federation with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and educational practices, and to this end shall make available the proceeds of the Grant to the Federation under a Subsidiary Grant Agreement to be entered into between the Recipient and the Federation under terms, conditions and Project implementation arrangements which shall have been approved by the Trustee, including the arrangements set forth in Schedule 4 to this Agreement; (ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation to carry out the Project and shall not take or permit to be taken any action which would prevent or interfere with the carrying out of the Project by the Federation;

(b) shall exercise its rights under the Subsidiary Grant Agreement in such a manner as to protect the interests of the Recipient and the Trustee and to accomplish the purposes of the Grant, and, except as the Trustee shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision of any such agreement; and

(c) without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Trustee shall otherwise agree, shall cause the Federation to carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Trustee shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall maintain or cause the Federation to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Recipient and the Federation responsible for carrying out the Project or any part thereof.

(b) The Recipient shall or shall cause the Federation to:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Trustee;

(ii) furnish to the Trustee, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Trustee shall have reasonably requested; and

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

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall or shall cause the Federation to:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, until at least one year after the Trustee has received the audit for the fiscal year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Trustee's representatives, based on an appropriate notice, 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.

ARTICLE V

Effectiveness; Termination

Section 5.01. This Trust Fund Grant Agreement shall not become effective until evidence satisfactory to the Trustee shall have been furnished to the Trustee that:

- (a) the Subsidiary Grant Agreement between the Recipient and the Federation has been executed with terms and conditions satisfactory to the Trustee;
- (b) the PCU within the Federation MOE has been established under terms of reference satisfactory to the Trustee and its coordinator has been appointed all in accordance with paragraph 1 of Schedule 4 to this Agreement; and
- (c) a construction management consultant has been appointed by the PCU of the Federation with qualifications and terms of reference satisfactory to the Trustee to assist the PCU in the implementation of Part A of the Project.

Section 5.02. As part of the evidence pursuant to Section 5.01, the Recipient shall furnish to the Trustee an opinion or opinions satisfactory to the Trustee of counsel acceptable to the Trustee, or if the Trustee so requests, a certificate satisfactory to the Trustee of a competent official of the Recipient showing that the Subsidiary Grant Agreement entered into between the Recipient and the Federation has been duly authorized or ratified by, and is legally binding upon, the parties to it in accordance with the terms of such agreement.

Section 5.03. (a) Except as the Recipient and the Trustee shall otherwise agree, the Trust Fund Grant Agreement shall enter into effect on the date on which the Trustee dispatches to the Recipient notice of its acceptance of the evidence furnished to the Trustee pursuant to Section 5.01 of this Agreement.

(b) If, before the Effective Date, any event shall have occurred which would have entitled the Trustee to suspend the right of the Recipient to make withdrawals from the Grant Account if the Trust Fund Grant Agreement had been effective, the Trustee may postpone the dispatch of the notice referred to in paragraph (a) of this Section until such event or events shall have ceased to exist.

Section 5.04. If the Trust Fund Grant Agreement shall not have entered into effect within ninety (90) days after the date of this Trust Fund Grant Agreement, the Trust Fund Grant Agreement and all obligations of the parties thereunder shall terminate, unless the Trustee, after consideration of the reasons for the delay, shall establish a later date for the purposes of this Section. The Trustee shall promptly notify the Recipient of such later date.

ARTICLE VI

Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 10.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 10.01 of the General Conditions:

For the Recipient:

Ministry of Finance
BH 71000 Sarajevo
Mehmeda Spahe No. 5
Bosnia and Herzegovina

For the Trustee:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or 82987 (FTCC)

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/ H. Muratovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(Acting as Trustee of the Trust Fund for
Bosnia and Herzegovina)

By /s/ J.F. Linn

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the Grant, the allocations of the amount of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Grant Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Civil works under Parts A and C.1 of the Project	1,600,000	100% (net of taxes)
(2) Goods under Parts A, B and C. 1 of the Project	2,850,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' Services and training under Parts A, B and C.1 of the Project	200,000	100%

(4)	Incremental operating costs under Parts A, B and C.1 of the Project	50,000	100%
(5)	Unallocated	300,000	
	TOTAL	5,000,000	

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient provided, however, that if the currency of the Recipient 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 costs incurred by the Federation MOE on account of the Project for staff salaries, office facilities, services, staff travel and consumable office supplies as may be agreed by the Trustee.

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, in an aggregate amount not exceeding the equivalent of \$500,000, may be made for Parts A, B and C.1 of the Project, on account of payments made for expenditures before that date but after January 31, 1996.

4. The Trustee may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for: (a) expenditures for goods and works under contracts not exceeding \$1,000,000 equivalent each except for the first three contracts awarded under Schedule 3, Section I, Parts B.3, B.4, B.5 and B.7 of this Agreement; (b) incremental operating costs; (c) contracts for employment of consulting firms not exceeding \$100,000 equivalent each; and (d) contracts for employment of individual consultants not exceeding \$50,000 equivalent each, each under such terms and conditions as the Trustee shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objectives of the Project are to support the Recipient in: (a) restoring the delivery of primary education during the 1996-97 school year; and (b) improving the capacity of the Federation MOE and RS MOE to manage the public education sector.

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

Part A: Primary School Reconstruction

Refurbishment of about 72 primary schools, construction of about 5 replacement primary schools and provision of furniture and equipment to classrooms in about 77 primary schools in the Federation.

Part B: Books and Educational Material

Provision of textbooks and supplementary readers for primary and secondary education and educational materials packages for primary schools in the Federation.

Part C: Project Implementation and Capacity Building

1. Strengthening of the capacity of the Federation MOE for the implementation of the Project through the provision of equipment, vehicles, technical assistance and training.

2. Strengthening of the capacity of the RS MOE for the implementation of the Project through the provision of equipment, vehicles, technical assistance and training.

Part D: Project Preparation and Pilot Implementation in Republika Srpska

Provision of works, consultants' services and equipment to assess the education reconstruction needs and prepare and implement pilot education reconstruction activities including provision of textbooks, supplementary readers and educational material packages for primary schools in Republika Srpska.

* * *

The Project is expected to be completed by March 31, 1998.

SCHEDULE 3

Procurement and Consultants' Service

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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. Limited International Bidding

Goods estimated to cost \$2,000,000 equivalent or more per contract shall be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. In addition, the list of suppliers shall be derived from, inter alia, the expressions of interest received in response to the GPN. Bidding documents may provide that the bidders can send their bids by fax, in which case bid security shall not be required, subject to the satisfaction of the Trustee that mechanisms to ensure confidentiality of bids received by fax are in place.

2. National Competitive Bidding

Works estimated to cost \$1,000,000 equivalent or more per contract 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 Trustee;
- (iv) if interested, 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. Procurement of Small Works

Works estimated to cost less than \$1,000,000 per contract, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three

qualified contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Trustee, 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 successfully complete the contract.

4. International Shopping

Goods estimated to cost more than \$200,000 equivalent but less than \$2,000,000 equivalent per contract 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 Trustee.

5. National Shopping

Goods estimated to cost \$200,000 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.

6. Direct Contracting

Goods which are of a proprietary nature may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

7. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$500,000 equivalent or less in the aggregate, may, with the Bank's prior agreement, be carried out by force account, in accordance with the provisions of said paragraph of the Guidelines.

8. Procurement from UN Agencies

Goods may be procured from UN agencies such as FAO, ILO, UNICEF and WHO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part C: Review by the Trustee 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 Trustee for its review and approval, in accordance with the provisions of paragraph 1 to 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 Trustee, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) each contract to be awarded in accordance with the provisions of Section I, Part B.1, B.6 and B.7 of this Schedule; (ii) the prequalification criteria and documentation to be included in the invitation to prequalify under Section I, Part B.2 of this Schedule; (iii) the first three contracts awarded under each of Section I, Parts B.3, B.4, B.5 and B.8, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Recipients and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Trustee, with such modifications as shall have been agreed by the Trustee. Where no relevant standard contract documents have been issued by the Trustee, other

standard forms acceptable to the Trustee shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Trustee review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Trustee review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Trustee, or (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Federation shall establish and thereafter maintain for purposes of Parts A, B and C.1 of the Project a PCU under terms of reference and with staffing and other resources acceptable to the Trustee. The PCU shall be headed by a coordinator and shall have overall responsibility for the management and coordination of Parts A, B and C.1 of the Project.

2. The Federation shall, for purposes of Section 8.06 of the General Conditions, and without limitation thereto:

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

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) as 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 and services required for the Project and to be financed out of the amount of the Grant 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 \$1,000,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 Trustee 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 Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Trustee a request or requests for a 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 Trustee shall, on behalf of the Recipient, withdraw from the Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient shall furnish to the Trustee 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 Trustee shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Trustee from the Grant 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 Recipient out of the Special Account, the Recipient shall, at such time as the Trustee shall reasonably request, furnish to the Trustee 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 Trustee shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Trustee shall have determined that all further withdrawals should be made by the Recipient directly from the Grant 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 Recipient shall have failed to furnish to the Trustee, within the period of time specified in Section 4.01 of this Agreement, any of the audit reports required to be furnished to the Trustee pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Trustee shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories for the Special Account, minus the total amount of any outstanding special commitments entered into by the Trustee pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Trustee shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Trustee 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 Trustee 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 Trustee, the Recipient shall, promptly upon notice from the Trustee: (A) provide such additional evidence as the Trustee may request; or (B) deposit into the Special Account (or, if the Trustee shall so request, refund to the Trustee) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Trustee shall otherwise agree, no further deposit by the Trustee into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Trustee 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 Recipient shall, promptly upon notice from the Trustee, refund to the Trustee such outstanding amount.

(c) The Recipient may, upon notice to the Trustee, refund to the Trustee all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Trustee made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for

cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

General Conditions

ARTICLE I

Application to Trust Fund Grant Agreement

Section 1.01. Application of General Conditions. Without limitation or restriction upon the scope of any other provisions of the Trust Fund Grant Agreement, these General Conditions set forth certain basic terms and conditions applicable to the Trust Fund Grant Agreement.

ARTICLE II

Definitions; Headings

Section 2.01. Definitions. The following terms have the following meanings wherever used in these General Conditions:

- (a) "Trustee" means the International Development Association acting as trustee of the Trust Fund.
- (b) "Association" means the International Development Association.
- (c) "Bank" means the International Bank for Reconstruction and Development.
- (d) "Trust Fund Grant Agreement" means this Trust Fund Grant Agreement to which these General Conditions are made applicable.
- (e) "Grant" means the Grant provided for in the Trust Fund Grant Agreement.
- (f) "Recipient" means Bosnia and Herzegovina.
- (g) "Currency" of a country means the coin or currency which is legal tender for the payment of public and private debts in that country.
- (h) "Dollars" and the sign "\$" mean dollars in the currency of the United States of America.
- (i) "Grant Account" means the account opened by the Trustee on its books in the name of the Recipient to which the amount of the Grant is credited.
- (j) "Project" means the project for which the Grant is made available, as described in the Trust Fund Grant Agreement and as the description thereof may be amended from time to time by agreement between the Recipient and the Trustee.
- (k) "Effective Date" means the date on which the Trust Fund Grant Agreement shall enter into effect as provided in Section 12.03.
- (l) "Taxes" includes imposts, levies, fees and duties of any nature, whether in effect at the date of the Trust Fund Grant Agreement or thereafter imposed.
- (m) "Closing Date" means the date specified in the Trust Fund Grant Agreement (as it may be extended) after which the Trustee may, by notice to the Recipient, terminate the right of the Recipient to withdraw from the Grant Account.

Section 2.02. References. References in these General Conditions to Articles or Sections are to Articles or Sections of these General Conditions.

Section 2.03. Headings. The headings of the Articles and Sections are inserted for convenience of reference only and are not a part of these General Conditions.

ARTICLE III

Grant Account

Section 3.01. Grant Account. The amount of the Grant shall be credited to the Grant Account and may be withdrawn therefrom by the Recipient as provided in the Trust

Fund Grant Agreement and in these General Conditions.

ARTICLE IV

Currency Provisions

Section 4.01. Currencies in which Withdrawals are to be made. Except as the Recipient and the Trustee shall otherwise agree, withdrawals from the Grant Account shall be made in the respective currencies in which the expenditures to be financed out of the proceeds of the Grant have been paid or are payable; provided, however, that withdrawals in respect of expenditures in the currency of the Recipient shall be made in such currency or currencies as the Trustee shall from time to time reasonably select.

Section 4.02. Valuation of Currencies. Whenever it shall be necessary for the purposes of the Trust Fund Grant Agreement to determine the value of one currency in terms of another, such value shall be as reasonably determined by the Trustee.

ARTICLE V

Withdrawal of Proceeds of Grant

Section 5.01. Withdrawal from the Grant Account. The Recipient shall be entitled to withdraw from the Grant Account amounts expended or, if the Trustee shall so agree, amounts to be expended for the Project in accordance with the provisions of the Trust Fund Grant Agreement and of these General Conditions. Except as the Recipient and the Trustee shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Trustee, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Section 5.02. Special Commitments by the Trustee. Upon the Recipient's request and upon such terms and conditions as shall be agreed upon between the Recipient and the Trustee, the Trustee may enter into special commitments in writing to pay amounts to the Recipient or others in respect of expenditures to be financed out of the proceeds of the Grant notwithstanding any subsequent suspension or cancellation by the Trustee or the Recipient.

Section 5.03. Applications for Withdrawal or for Special Commitment. When the Recipient shall desire to withdraw any amount from the Grant Account or to request the Trustee to enter into a special commitment pursuant to Section 5.02, the Recipient shall deliver to the Trustee a written application in such form, and containing such statements and agreements, as the Trustee shall reasonably request. Applications for withdrawal, including the documentation required pursuant to this Article, shall be made promptly in relation to expenditures for the Project.

Section 5.04. Reallocation. Notwithstanding the allocation of an amount of the Grant or the percentages for withdrawal set forth or referred to in the Trust Fund Grant Agreement, if the Trustee has reasonably estimated that the amount of the Grant then allocated to any withdrawal category set forth in the Trust Fund Grant Agreement or added thereto by amendment will be insufficient to finance the agreed percentage of all expenditures in that category, the Trustee may, by notice to the Recipient:

(a) reallocate to such category, to the extent required to meet the estimated shortfall, proceeds of the Grant which are then allocated to another category and which in the opinion of the Trustee are not needed to meet other expenditures; and

(b) if such reallocation cannot fully meet the estimated shortfall, reduce the percentage for withdrawal then applicable to such expenditures in order that further withdrawals under such category may continue until all expenditures thereunder shall have been made.

Section 5.05. Evidence of Authority to Sign Applications for Withdrawal. The Recipient shall furnish to the Trustee evidence of the authority of the person or persons authorized to sign applications for withdrawal and the authenticated specimen signature of any such person.

Section 5.06. Supporting Evidence. The Recipient shall furnish to the Trustee such documents and other evidence in support of the application as the Trustee shall

reasonably request, whether before or after the Trustee shall have permitted any withdrawal requested in the application.

Section 5.07. Sufficiency of Applications and Documents. Each application and the accompanying documents and other evidence must be sufficient in form and substance to satisfy the Trustee that the Recipient is entitled to withdraw from the Grant Account the amount applied for and that the amount to be withdrawn from the Grant Account is to be used only for the purposes specified in the Trust Fund Grant Agreement.

Section 5.08. Treatment of Taxes. It is the policy of the Trustee that no proceeds of the Grant shall be withdrawn on account of payments for any taxes levied by, or in the territory of, the Recipient on goods or services, or on the importation, manufacture, procurement or supply thereof. To that end, if the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant decreases or increases, the Trustee may, by notice to the Recipient, increase or decrease the percentage for withdrawal set forth or referred to in respect of such item in the Trust Fund Grant Agreement as required to be consistent with such policy of the Trustee.

Section 5.09. Payment by the Trustee. The Trustee shall pay the amounts withdrawn by the Recipient from the Grant Account only to or on the order of the Recipient.

ARTICLE VI

Cancellation and Suspension

Section 6.01. Cancellation by the Recipient. The Recipient may, by notice to the Trustee, cancel any amount of the Grant which the Recipient shall not have withdrawn, except that the Recipient may not so cancel any amount of the Grant in respect of which the Trustee shall have entered into a special commitment pursuant to Section 5.02.

Section 6.02. Suspension by the Trustee. If any of the following events of suspension shall have occurred and be continuing, the Trustee may, by notice to the Recipient, suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account:

(a) The Recipient shall have failed to make payment (notwithstanding the fact that such payment may have been made by a third party) of principal, interest, service charges or any other amount due to the Trustee, the Trustee or the Bank: (i) under any other trust fund grant agreement between the Recipient and the Trustee, (ii) under any development credit agreement between the Recipient and the Trustee, or (iii) under any loan or guarantee agreement between the Recipient and the Bank.

(b) The Recipient shall have failed to perform any other obligation under the Trust Fund Grant Agreement.

(c) The Trustee, the Association or the Bank shall have suspended in whole or in part the right of the Recipient to make withdrawals under any trust fund credit agreement with the Trustee, any development credit agreement with the Trustee or any loan agreement with the Bank, because of a failure by the Recipient to perform any of its obligations under such agreement.

(d) As a result of events which have occurred after the date of the Trust Fund Grant Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Project can be carried out or that the Recipient will be able to perform its obligations under the Trust Fund Grant Agreement.

(e) The Recipient shall: (i) have been suspended from membership in or ceased to be a member of the Bank, or (ii) have ceased to be a member of the International Monetary Fund.

(f) After the date of the Trust Fund Grant Agreement and prior to the Effective Date, any event shall have occurred which would have entitled the Trustee to suspend the Recipient's right to make withdrawals from the Grant Account if the Trust Fund Grant Agreement had been effective on the date such event occurred.

(g) A representation made by the Recipient, in or pursuant to the Trust Fund Grant Agreement, or any statement furnished in connection therewith, and intended to be relied upon by the Trustee in making the Grant, shall have been incorrect in any

material respect.

(h) Any other event specified in the Trust Fund Grant Agreement for the purposes of this Section shall have occurred.

The right of the Recipient to make withdrawals from the Grant Account shall continue to be suspended in whole or in part, as the case may be, until the event or events which gave rise to suspension shall have ceased to exist, unless the Trustee shall have notified the Recipient that the right to make withdrawals has been restored in whole or in part, as the case may be.

Section 6.03. Cancellation by the Trustee. If (a) the right of the Recipient to make withdrawals from the Grant Account shall have been suspended with respect to any amount of the Grant for a continuous period of thirty days, or (b) at any time, the Trustee determines, after consultation with the Recipient, that an amount of the Grant will not be required to finance the Project's costs to be financed out of the proceeds of the Grant, or (c) at any time, the Trustee determines that the procurement of any item is inconsistent with the procedures set forth or referred to in the Trust Fund Grant Agreement and establishes the amount of the expenditures in respect of such item which would otherwise have been eligible for financing out of the proceeds of the Grant, or (d) after the Closing Date, an amount of the Grant shall remain unwithdrawn from the Grant Account, the Trustee may, by notice to the Recipient, terminate the right of the Recipient to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Grant shall be canceled.

Section 6.04. Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Trustee. No cancellation or suspension by the Trustee shall apply to amounts subject to any special commitment entered into by the Trustee pursuant to Section 5.02 except as expressly provided in such commitment.

Section 6.05. Effectiveness of Provisions after Suspension or Cancellation. Notwithstanding any cancellation or suspension, all the provisions of the Trust Fund Grant Agreement shall continue in full force and effect except as specifically provided in this Article.

ARTICLE VII

Taxes

Section 7.01. Taxes The Trust Fund Grant Agreement, and any other agreement to which these General Conditions apply, shall be free from any taxes levied by, or in the territory of, the Recipient on or in connection with the execution, delivery or registration thereof.

ARTICLE VIII

Cooperation and Information; Financial and Economic Data; Project Implementation

Section 8.01. Cooperation and Information. (a) The Recipient and the Trustee shall cooperate fully to assure that the purposes of the Grant will be accomplished. To that end, the Recipient and the Trustee shall:

(i) from time to time, at the request of any one of them, exchange views with regard to the progress of the Project, the purposes of the Grant, and the performance of their respective obligations under the Trust Fund Grant Agreement; and furnish to the other party all such information related thereto as it shall reasonably request; and

(ii) promptly inform each other of any condition which interferes with, or threatens to interfere with, the matters referred to in paragraph (i) above.

(b) The Recipient shall afford all reasonable opportunity for representatives of the Trustee to visit any site for purposes related to the Grant.

Section 8.02. Insurance. The Recipient shall insure or cause to be insured, or make adequate provision for the insurance of, the imported goods to be financed out of the proceeds of the Grant against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation. Any indemnity for such insurance shall be payable in a freely usable currency to replace or repair such

goods.

Section 8.03. Use of Goods and Services. Except as the Trustee shall otherwise agree, the Recipient shall cause all goods and services financed out of the proceeds of the Grant to be used exclusively for the purposes of the Project.

Section 8.04. Plans and Schedules. The Recipient shall furnish, or cause to be furnished, to the Trustee promptly upon their preparation, the plans, specifications, reports, contract documents and construction and procurement schedules for the Project, and any material modifications thereof or additions thereto, in such detail as the Trustee shall reasonably request.

Section 8.05. Records and Reports. (a) The Recipient shall: (i) maintain records and procedures adequate to record and monitor the progress of the Project (including its cost and the benefits to be derived from it), to identify the goods and services financed out of the proceeds of the Grant, and to disclose their use in the Project; (ii) within its capacity, enable the Trustee's representatives to visit any facilities and construction sites included in the Project and to examine the goods financed out of the proceeds of the Grant and any plants, installations, sites, works, buildings, property, equipment, records and documents relevant to the performance of the obligations of the Recipient under the Trust Fund Grant Agreement; and (iii) furnish to the Trustee at regular intervals all such information as the Trustee shall reasonably request concerning the Project, its cost and, where appropriate, the benefits to be derived from it, the expenditure of the proceeds of the Grant and the goods and services financed out of such proceeds.

(b) Upon the award of any contract for goods or services to be financed out of the proceeds of the Grant, the Trustee may publish a description thereof, the name and nationality of the party to which the contract was awarded and the contract price.

(c) Promptly after completion of the Project, but in any event not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Trustee, the Recipient shall prepare and furnish to the Trustee a report, of such scope and in such detail as the Trustee shall reasonably request, on the execution and initial operation of the Project, its cost and the benefits derived and to be derived from it, the performance by the Recipient and the Trustee of their respective obligations under the Trust Fund Grant Agreement and the accomplishment of the purposes of the Grant.

Section 8.06. Maintenance. The Recipient shall at all times operate and maintain, or cause to be operated and maintained, any facilities relevant to the Project, and promptly as needed, make or cause to be made all necessary repairs and renewals thereof.

ARTICLE IX

Failure to Exercise Rights; Arbitration

Section 9.01. Enforceability. The rights and obligations of the Recipient and the Trustee under the Trust Fund Grant Agreement shall be valid and enforceable in accordance with their terms notwithstanding the law of any State or political subdivision thereof to the contrary. Neither the Recipient nor the Trustee shall be entitled in any proceeding under this Article to assert any claim that any provision of these General Conditions or the Trust Fund Grant Agreement is invalid or unenforceable because of any provision of the Articles of Agreement of the Trustee or any document or instrument constituting the Trust Fund.

Section 9.02. Failure to Exercise Rights. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under the Trust Fund Grant Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default. No action of such party in respect of any default, or any acquiescence by it in any default, shall affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

Section 9.03. Arbitration. (a) Any controversy between the parties to the Trust Fund Grant Agreement and any claim by either such party against the other arising under the Trust Fund Grant Agreement which has not been settled by agreement of the parties shall be submitted to arbitration by an Arbitral Tribunal as hereinafter provided.

(b) The parties to such arbitration shall be the Trustee and the Recipient.

(c) The Arbitral Tribunal shall consist of three arbitrators appointed as follows: one arbitrator shall be appointed by the Trustee; a second arbitrator shall be appointed by the Recipient; and the third arbitrator (hereinafter sometimes called the Umpire) shall be appointed by agreement of the parties or, if they shall not agree, by the President of the International Court of Justice or, failing appointment by said President, by the Secretary-General of the United Nations. If either of the parties shall fail to appoint an arbitrator, such arbitrator shall be appointed by the Umpire. In case any arbitrator appointed in accordance with this Section shall resign, die or become unable to act, a successor arbitrator shall be appointed in the same manner as herein prescribed for the appointment of the original arbitrator and such successor shall have all the powers and duties of such original arbitrator.

(d) An arbitration proceeding may be instituted under this Section upon notice by the party instituting such proceeding to the other party. Such notice shall contain a statement setting forth the nature of the controversy or claim to be submitted to arbitration, the nature of the relief sought, and the name of the arbitrator appointed by the party instituting such proceeding. Within thirty days after such notice, the other party shall notify to the party instituting the proceeding the name of the arbitrator appointed by such other party.

(e) If within sixty days after the notice instituting the arbitration proceeding, the parties shall not have agreed upon an Umpire, either party may request the appointment of an Umpire as provided in paragraph (c) of this Section.

(f) The Arbitral Tribunal shall convene at such time and place as shall be fixed by the Umpire. Thereafter, the Arbitral Tribunal shall determine where and when it shall sit.

(g) The Arbitral Tribunal shall decide all questions relating to its competence and shall, subject to the provisions of this Section and except as the parties shall otherwise agree, determine its procedure. All decisions of the Arbitral Tribunal shall be by majority vote.

(h) The Arbitral Tribunal shall afford to the parties a fair hearing and shall render its award in writing. Such award may be rendered by default. An award signed by a majority of the Arbitral Tribunal shall constitute the award of such Tribunal. A signed counterpart of the award shall be transmitted to each party. Any such award rendered in accordance with the provisions of this Section shall be final and binding upon the parties to the Trust Fund Grant Agreement. Each party shall abide by and comply with any such award rendered by the Arbitral Tribunal in accordance with the provisions of this Section.

(i) The parties shall fix the amount of the remuneration of the arbitrators and such other persons as shall be required for the conduct of the arbitration proceedings. If the parties shall not agree on such amount before the Arbitral Tribunal shall convene, the Arbitral Tribunal shall fix such amount as shall be reasonable under the circumstances. Each party shall defray its own expenses in the arbitration proceedings. The costs of the Arbitral Tribunal shall be divided between and borne equally by the parties. Any question concerning the division of the costs of the Arbitral Tribunal or the procedure for payment of such costs shall be determined by the Arbitral Tribunal.

(j) The provisions for arbitration set forth in this Section shall be in lieu of any other procedure for the settlement of controversies between the parties to the Trust Fund Grant Agreement or of any claims by either party against the other party arising thereunder.

(k) The Trustee shall not be entitled to enter judgment against the Recipient upon the award, to enforce the award against the Recipient by execution or to pursue any other remedy against the Recipient for the enforcement of the award, except as such procedure may be available against the Recipient otherwise than by reason of the provisions of this Section. If, within thirty days after counterparts of the award shall have been delivered to the parties, the award shall not be complied with by the Trustee, the Recipient may take any such action for the enforcement of the award against the Trustee.

(l) Service of any notice or process in connection with any proceeding under this Section or in connection with any proceeding to enforce any award rendered pursuant to this Section may be made in the manner provided in Section 10.01. The parties to the Trust Fund Grant Agreement waive any and all other requirements for the service of any such notice or process.

ARTICLE X

Miscellaneous Provisions

Section 10.01. Notices and Requests. Any notice or request required or permitted to be given or made under the Trust Fund Grant Agreement and any other agreement between the parties contemplated by the Trust Fund Grant Agreement shall be in writing. Except as otherwise provided in Section 11.03, 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 or telex to the party to which it is required or permitted to be given or made at such party's address specified in the Trust Fund Grant Agreement, or at such other address as such party shall have designated by notice to the party giving such notice or making such request.

Section 10.02. Evidence of Authority. The Recipient shall furnish to the Trustee sufficient evidence of the authority of the person or persons who will, on behalf of the Recipient, take any action or execute any documents required or permitted to be taken or executed by the Recipient under the Trust Fund Grant Agreement, and the authenticated specimen signature of each such person.

Section 10.03. Action on Behalf of the Recipient. Any action required or permitted to be taken, and any documents required or permitted to be executed, under the Trust Fund Grant Agreement on behalf of the Recipient may be taken or executed by the representative of the Recipient designated in the Trust Fund Grant Agreement for the purposes of this Section or any person thereunto authorized in writing by such representative. Any modification or amplification of the provisions of the Trust Fund Grant Agreement may be agreed to on behalf of the Recipient by written instrument executed on behalf of the Recipient by the representative so designated or any person thereunto authorized in writing by such representative, provided that, in the opinion of such representative, such modification or amplification is reasonable in the circumstances and will not substantially increase the obligations of the Recipient under the Trust Fund Grant Agreement. The Trustee may accept the execution by such representative or other person of any such instrument as conclusive evidence that in the opinion of such representative any modification or amplification of the provisions of the Trust Fund Grant Agreement effected by such instrument is reasonable in the circumstances and will not substantially increase the obligations of the Recipient thereunder.

Section 10.04. Execution in Counterparts. The Trust Fund Grant Agreement may be executed in several counterparts, each of which shall be an original.

