

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3927 BOS

Development Credit Agreement

(Second Employment Support Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 21, 2004

CREDIT NUMBER 3927 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 21, 2004, between BOSNIA and HERZEGOVINA (the Borrower) 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) Part A of the Project will be carried out by the Federation of Bosnia and Herzegovina with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Federation of Bosnia and Herzegovina a part of the proceeds of the Credit as provided in this Agreement;

(C) Part B of the Project will be carried out by Republika Srpska with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Republika Srpska a part of the proceeds of the Credit as provided in this Agreement; 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 Project Agreements of even date herewith between the Association and the Federation of Bosnia and Herzegovina and the Association and Republika Srpska;

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 October 6, 1999 (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Annual Service Delivery Agreement" means the agreement, satisfactory to the Association, and contemplated by the Operations Manual, that will be signed on an annual basis:

- (i) between the Federation PIU and a Cantonal employment service office, mentioned in Section 3.01(b)(vi) of this Agreement; and

- (ii) between the RDEF and a regional employment service office, mentioned in Section 3.01(c)(vi) of this Agreement;

as the case may be, with respect to the provision of active labor market programs and institutional capacity building for a twelve (12) month period (or such other period agreed to by the Association), which agreement, among other matters, will stipulate the provision of resources by the relevant employment service office toward the financing of such programs and capacity building, including the deposit of monies into the relevant Project Account and, in the event that such employment service office shall have failed to perform any of its obligations under an Annual Service Delivery Agreement or a Service Contract, the Federation PIU or the RDEF, as the case may be, may suspend or terminate such Annual Service Delivery Agreement;

(b) “Entity” means either the Federation (as defined hereafter) or RS (as defined hereafter), as the case may be, and “Entities” means the Federation and RS, collectively;

(c) “Euro” or “€” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty on the European Union;

(d) “Federation” means the Federation of Bosnia and Herzegovina, a political subdivision of the Borrower, and includes any successor or successors thereto;

(e) “Federation MOL” means the Ministry of Labor and Social Affairs of the Federation, and includes any successor thereto;

(f) “Federation PIU” means the Project Implementation Unit established within the Federation MOL, referred to in paragraph 1 of Schedule 1 to the Federation Project Agreement (as defined hereafter);

(g) “Federation Project Agreement” means the agreement between the Association and the Federation 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 Project Agreement;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 3.02 of the Federation Project Agreement and the RS Project Agreement, respectively;

(i) “Konvertible Marka” or “KM” means the lawful currency of the Borrower;

(j) “Operations Manual” means the manual referred to in paragraph 2 of Schedule 1 to the Project Agreements, satisfactory to the Association, to be adopted by the Federation and Republika Srpska, respectively, and setting out the operational and administrative procedures for the implementation of the Project;

(k) “Participating Federation ESO” means a Cantonal employment service office operating within the Federation that has signed an Annual Service Delivery Agreement;

(l) “Participating RS ESO” means a regional employment service office operating within Republika Srpska that has signed an Annual Service Delivery Agreement;

(m) “Project Account” means the account referred to in paragraph 3 of Schedule 1 to each Project Agreement opened and maintained by each Entity for deposit therein of counterpart funds for the Project;

(n) “Project Agreement” means either the Federation Project Agreement or the RS Project Agreement (as hereafter defined), as the case may be, and “Project Agreements” means said Project Agreements, collectively;

(o) “RDEF” means the Development and Employment Foundation of Republika Srpska, a legal entity established under Government Decree No. 02/1-020-861/00, dated September 5, 2000, selected to act as an implementing agency on behalf of Republika Srpska and referred to in paragraph 1 of Schedule 1 to the RS Project Agreement (as hereafter defined), and includes any successor or successors thereto acceptable to the Association;

(p) “Republika Srpska” or “RS” means Republika Srpska, a political subdivision of the Borrower, and includes any successor or successors thereto;

(q) “RS MOL” means the Ministry of War Victims, Veterans and Labor of Republika Srpska, and includes any successor thereto;

(r) “RS Project Agreement” means the agreement between the Association and RS 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 Project Agreement;

(s) “Service Contracts” has the meaning given to such expression under clause (c) of paragraph 2 of Schedule 1 of this Agreement;

(t) “Special Accounts” means the accounts referred to in Section 2.02(b) of this Agreement;

(u) “Subsidiary Credit Agreement” means either agreement to be entered into between the Borrower and each Entity pursuant to Section 3.01 (b) or (c) of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules and agreements supplemental to each Subsidiary Credit Agreement; the term “Subsidiary Credit Agreements” means said agreements collectively; and “Subsidiary Credit” means a credit to be made out of the proceeds of the Credit provided to each Entity under a Subsidiary Credit 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 eight million two hundred thousand Special Drawing Rights (SDR 8,200,000).

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 and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of each of Parts A and B of the Project, open and maintain in Euro two separate special deposit accounts, namely the Federation Special Account and the RS Special Account, in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be September 30, 2008, 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 cancelled; and (ii) at the rate set as of 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 January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2014, and ending January 15, 2024. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The Euro 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 and Republika Srpska to perform in accordance with the provisions of the Federation Project Agreement and the RS Project Agreement, respectively, all of the obligations of the Federation and Republika Srpska 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 and Republika Srpska 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 Part A of the Project, the Borrower shall enter into a subsidiary credit agreement with the Federation (the Subsidiary Credit Agreement) 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 Borrower shall relend to the Federation an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories A (1) through A (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iii) the Borrower shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;

- (iv) the Borrower shall charge the Federation a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;
- (v) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project; and
- (vi) the Federation, through the Federation PIU, shall cause the Participating Federation ESOs to provide: (a) promptly to the Federation PIU the resources required in accordance with the relevant Annual Service Delivery Agreement; (b) timely and reliable financial information to the Federation PIU in respect of the usage of such resources; (c) access to the auditors referred to in Section 3.01(b) of the Federation Project Agreement to financial records and accounts, including the financial records and accounts mentioned in Section 4.03 of this Agreement; and (d) a full-time staff member as a liaison coordinator and extension agent to work with the Federation PIU on Project implementation-related matters.

(c) For the purposes of Part B of the Project, the Borrower shall enter into a subsidiary credit agreement with Republika Srpska (the Subsidiary Credit Agreement) 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 Borrower shall relend to Republika Srpska an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories B (5) through B (8) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the RS Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iii) the Borrower shall charge Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge Republika Srpska a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;
- (v) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or

respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project; and

- (vi) RS, through the RDEF, shall cause the Participating RS ESOs to provide: (a) promptly to the RDEF the resources required in accordance with the relevant Annual Service Delivery Agreement; (b) timely and reliable financial information to the RDEF in respect of the usage of such resources; (c) access to the auditors referred to in Section 3.01(b) of the RS Project Agreement to financial records and accounts, including the financial records and accounts mentioned in Section 4.03 of this Agreement; and (d) a full-time staff member as a liaison coordinator and extension agent to work with the RDEF on Project implementation-related matters.

(d) The Borrower shall exercise its rights under the Subsidiary Credit Agreements in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, shall not assign, amend, abrogate or waive either of the Subsidiary Credit Agreements or any provision of either one thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Federation Project Agreement, and procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the RS Project Agreement.

Section 3.03. 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 Part A of the Project shall be carried out by the Federation pursuant to Section 2.05 (a) of the Federation Project Agreement and in respect of Part B of the Project shall be carried out by RS pursuant to Section 2.05 (a) of the RS Project Agreement.

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 expenditure, 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 (1) year after the Association has received the audit report for

the fiscal year in which the last withdrawal from the Credit Account was made;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year or other period agreed to by the Bank, referred to in paragraph (b) of Section 3.01 of the Project Agreements.

Section 4.02 The Borrower shall ensure that the Federation causes the Federation PIU and shall ensure that RS causes the RDEF to prepare reporting forms acceptable to the Association for obtaining Project-related information, including the use of counterpart funds and other resources, from Participating Federation ESOs and from Participating RS ESOs, respectively, and shall also ensure that such ESOs shall duly complete and deliver such forms to the Federation PIU and the RDEF, respectively, in a timely manner satisfactory to the Association.

Section 4.03 The Borrower, through the Federation, shall cause the Federation PIU to ensure that Participating Federation ESOs, and through Republika Srpska, shall cause the RDEF to ensure that Participating RS ESOs, respectively, maintain appropriate financial records and accounts for each Annual Service Delivery Agreement and the Service Contracts related thereto, which records and accounts:

(a) will be in accordance with consistently applied accounting standards acceptable to the Association;

(b) will be adequate to reflect the operations, resources and expenditures related to the Service Contracts to which the Participating Federation ESOs and the Participating RS ESOs, as the case may be, are each respectively a party; and

(c) in the case of the Participating Federation ESOs, will be provided to the Federation PIU, and in the case of the Participating RS ESOs, will be provided to the RDEF.

ARTICLE V

Remedies of the Association

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

(a) Either Entity shall have failed to perform any of its obligations under its respective Project Agreement or Subsidiary Credit Agreement;

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Entity shall be able to perform its obligations under its respective Project Agreement or Subsidiary Credit Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified namely that, the event specified in paragraph (a) 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.

ARTICLE VI

Effective Date; Termination

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

(a) a Project Agreement has been executed on behalf of the Association and an Entity on terms and conditions satisfactory to the Association; and

(b) for the Entity referred to paragraph (a) of this Section 6.01:

(i) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and said Entity, on terms and conditions satisfactory to the Association;

(ii) the Operations Manual, satisfactory to the Association, has been adopted by said Entity; and

(iii) the Project Account has been opened by said Entity and an initial amount of \$20,000 equivalent for Part A of the Project and \$10,000 equivalent for Part B of the Project, as the case may be, has been deposited into such Account.

Section 6.02. The following are specified as additional matters, with the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by the Entity concerned and is legally binding on said Entity in accordance with its terms; and

(b) that the Subsidiary Credit Agreement referred to in Section 6.01 (b) (i) has been duly authorized or ratified by and is legally binding upon the Borrower and said Entity in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Article III of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Treasury of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Treasury
Trg Bih 1
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:

(387-33) 471-822

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

BOSNIA AND HERZEGOVINA

By /s/ Adnan Terzic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shengman Zhang

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
A. <u>Part A of the Project (the Federation)</u>		
(1) Goods	1,350,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of expenditures for other
local items		procured locally
(2) Consultants' services including Service Contracts under Part A (1) of the Project, technical assistance and training under Part A(2) of the Project, and audit costs	2,750,000	100% for foreign consulting firms and foreign individual consultants, and 80% for local consulting firms and local individual consultants, and 100% for training
(3) Incremental operating costs	675,000	80% of expenditures
(4) Unallocated	691,500	
SUB-TOTAL	<u>5,466,500</u>	
B. <u>Part B of the Project (Republika Srpska)</u>		
(5) Goods	675,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Consultants' services including Service Contracts under Part B(1) of the Project, technical assistance and training under Part B(2) of the Project, and audit costs	1,375,000	100% for foreign consulting firms and foreign individual consultants, and 80% for local consulting firms and local individual consultants, and 100% for training
(7) Incremental operating costs	337,500	80% of expenditures
(8) Unallocated	346,000	
SUB-TOTAL	<u>2,733,500</u>	
TOTAL	<u>8,200,000</u>	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; 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";

(c) the term "Service Contracts" means:

(i) contracts, satisfactory to the Association, for the provision of counseling, on-the-job training, job-finding, and training and advisory services concluded among the Federation PIU, a Participating Federation ESO, and a private or public entity selected by the Federation PIU and the relevant Participating Federation ESO in accordance with the terms and conditions, as well as the selection criteria, provided in the Operations Manual; and

(ii) contracts, satisfactory to the Association, for the provision of counseling, on-the-job training, job-finding, and training and advisory services concluded among the RDEF, a Participating RS ESO, and a private or public entity selected by the RDEF and the relevant Participating RS ESO, in accordance with the terms and conditions, as well as the selection criteria, provided in the Operations Manual;

(d) the term “Incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the Federation PIU and the RDEF on account of Project implementation, management, monitoring and evaluation, including the cost of salaries, office equipment and supplies, office equipment maintenance and repair, vehicle operation and repair, local travel, communication, translation and interpretation, and other miscellaneous costs, as may be agreed with the Association, but excluding salaries of officials and employees of the Borrower; and

(e) the term “training” means training activities (other than consultants’ services) to be carried out under the Project, including the reasonable and necessary travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence and per diem allowances, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

- (a) payments made for expenditures prior to the date of this Agreement; and
- (b) Categories allocated to Part A or Part B of the Project unless:
 - (i) a Project Agreement between the Association and the Entity responsible for implementing Part A or Part B of the Project, as the case may be, has been executed, on terms and conditions satisfactory to the Association;
 - (ii) a Subsidiary Credit Agreement between the Borrower and such Entity has been executed, on terms and conditions satisfactory to the Association;
 - (iii) the Operations Manual, satisfactory to the Association, has been adopted by such Entity;
 - (iv) the Project Account has been opened by such Entity and an initial amount of \$20,000 equivalent for Part A of the Project and \$10,000 equivalent for Part B of the Project, as the case may be, has been deposited into such Account; and
 - (v) an opinion has been furnished to the Association stating that such Project Agreement and Subsidiary Credit Agreement have been duly authorized or ratified by the parties thereto and are legally binding upon them in accordance with their respective terms.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) contracts for goods costing less than \$100,000 equivalent per contract; (b) contracts for services of consulting firms costing less than \$100,000 equivalent per contract; (c) contracts for services of individual consultants costing less than \$50,000 equivalent per contract; and (d) training workshops and study tours, audit fees, and incremental operating costs; all 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: (a) support the Borrower's efforts to provide employment-related services for approximately ten thousand (10,000) individuals who have been selected based upon eligibility criteria, satisfactory to the Association, which shall be reviewed annually by the Borrower and the Association (or such other period as the Association may agree), and (b) further the reform of the Borrower's employment-related services.

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: The Federation

1. Active Labor Market Programs and Job Brokerage Services

Provision, through private sector service providers, of and facilitation for counseling services; on-the-job training; support for self-employment in agriculture, agribusiness and small businesses; job fair and public works; business advisory services; and skills enhancement training in the Federation.

2. Institution Building and Technical Assistance to the Employment Services

Upgrading and strengthening of the capacity of public employment services in the Federation to provide and outsource job brokerage and employment services programs through the development of procedures, guidelines and regulations, staff training, and the piloting of analytical labor market information systems, including the introduction of a labor market research unit in the Federation MOL.

3. Project Management

Strengthening the institutional capacity of the Federation PIU through the provision of technical assistance, equipment and the financing of incremental operating expenses for Project implementation, as well as the carrying out of a staff development program.

Part B: Republika Srpska

1. Active Labor Market Programs and Job Brokerage Services

Provision, through private sector service providers, of and facilitation for counseling services; on-the-job training; support for self-employment in agriculture, agribusiness and small businesses; job fair and public works; business advisory services; and skills enhancement training.

2. Institution Building and Technical Assistance to the Employment Services

Upgrading and strengthening of the capacity of public employment services in the Republika Srpska to provide and outsource job brokerage and employment services programs through the development of procedures, guidelines and regulations, staff training, and the development of analytical labor market information systems, including the introduction of a labor market research unit in the RS MOL.

3. Project Management

Strengthening the institutional capacity of the RDEF through the provision of technical assistance, equipment and the financing of incremental operating expenses for Project implementation, as well as the carrying out of a staff development program.

* * *

The Project is expected to be completed by March 31, 2008.

SCHEDULE 3

Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (3) in case of the Federation Special Account, and Categories (5) through (7) in case of the RS Special Account 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 and services 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 equivalent to ₪600,000 in respect of the Federation Special Account and an amount equivalent to ₪300,000 in respect of the RS Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule.

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 either Entity shall have failed to furnish to the Association, within the period of time specified in Section 3.01 (b)(ii) of the Federation Project Agreement and Section 3.01 (b)(ii) of the RS Project Agreement, as the case may be, 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 Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories 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.