

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N001-0 BOS

Project Agreement

(Emergency Industrial Restart Project - Including a Political Risk Guarantee Facility)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of the International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of the International Development Association

and

INVESTMENT GUARANTEE AGENCY

Dated February 7, 1997

INTERIM FUND CREDIT NUMBER N001-0 BOS

PROJECT AGREEMENT

AGREEMENT, dated February 7, 1997, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996, and INVESTMENT GUARANTEE AGENCY (IGA).

WHEREAS by the Interim Fund Development Credit Agreement of even date herewith between Bosnia and Herzegovina (the Borrower or BH) and the Administrator, the Administrator has agreed to make available to the Borrower an amount in various currencies equivalent to seven million Special Drawing Rights (SDR 7,000,000), on the terms and conditions set forth in the Interim Fund Development Credit Agreement, but only on condition that IGA agrees to undertake such obligations toward the Administrator as are set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Interim Fund Development Credit Agreement and the General Conditions (as so defined) have the respective meanings therein set forth and the following term has the following meaning:

(a) "Standby Letter of Credit" means the irrevocable standby letter of credit

issued by the Agent Bank in favor of a Guarantee Holder pursuant to which the Agent Bank undertakes to fulfill IGA's payment obligations under the Guarantee.

ARTICLE II

Execution of Part A of the Project

Section 2.01. (a) IGA declares its commitment to the objectives of the Project as set forth in Schedule 1 of the Interim Fund Development Credit Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and insurance practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) For the purposes of the carrying out of Part A.1 of the Project, IGA shall:

(i) enter into an agreement with the Agent Bank (the Agency Agreement), whereunder IGA shall designate the Agent Bank to withdraw funds from the Interim Fund Credit Account and delegate the making of Payments under Guarantee Contracts, such agreement to contain terms and conditions satisfactory to the Administrator, including (except as the Administrator shall otherwise agree) those set forth or referred to in Schedule 1 to this Agreement;

(ii) enter into contracts with Guarantee Holders, providing guarantees against the Covered Risks and containing the terms and conditions substantially similar to those specified in the Standard Form of Guarantee Contract; and

(iii) duly comply with all its obligations under the Agency Agreement and the Guarantee Contracts.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section and except as the Borrower, the Administrator and IGA shall otherwise agree, IGA shall carry out Part A.1 of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(d) Goods and services required for Parts A.2 and A.3 of the Project and to be financed out of the Additional Escrow Amounts shall be procured in accordance with procedures acceptable to the Administrator.

Section 2.02. (a) IGA shall, at the request of the Administrator, exchange views with the Administrator with regard to progress of Part A of the Project, the performance of its obligations under this Agreement, the Agency Agreement and the Guarantee Contracts and other matters relating to the purposes of the Interim Fund Credit.

(b) IGA shall promptly inform the Administrator of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Interim Fund Credit, or the performance by IGA of its obligations under this Agreement, the Agency Agreement and the Guarantee Contracts.

Section 2.03. IGA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Administrator, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, on or about November 15, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part A of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Administrator, by December 31, 1998, or such later date as the Administrator shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient

completion of Part A of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

Section 2.04. IGA shall:

(a) on the first day following each six-month period after the Effective Date, furnish to the Administrator a report, in such detail as the Administrator shall request, on the Guarantee Contracts issued and, if applicable, the Payments made during such period; and

(b) promptly after the expiry of the Guarantee Facility, but in any event not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Administrator, the Borrower and IGA, prepare and furnish to the Administrator a report, of such scope and detail as the Administrator shall reasonably request, on the execution and initial operation of Part A of the Project, its cost and the benefits derived and to be derived from it, the performance by the Administrator, the Borrower and IGA of their respective obligations under the Interim Fund Development Credit Agreement and the Project Agreement, respectively, and the accomplishment of the purposes of the Interim Fund Credit.

ARTICLE III

Management and Operations of IGA

Section 3.01. (a) IGA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial, and insurance practices and the provisions of the Operations Manual, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

(b) IGA shall not, without the prior written consent of the Administrator, amend or otherwise alter the Operations Manual or any provision thereof.

(c) IGA shall take out and maintain with responsible insurers, or to make other provision satisfactory to the Administrator for, insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) IGA shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations and financial condition, including records and separate accounts for the Project.

(b) IGA shall:

(i) have the records referred to in Section 4.01 of this Agreement, its accounts and financial statements (balance sheets, statements of income and expenses and related statements) and records and accounts (Escrow Account and Additional Escrow Account) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator who shall be employed by November 30, 1997 on terms and conditions satisfactory to the Administrator;

(ii) furnish to the Administrator as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of said financial statements for such year as so audited, and (B) the report of such audit by said auditors of such scope and in such detail as the Administrator shall have reasonably requested; and

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

ARTICLE V

Effective Date; Termination;

Cancellation and Suspension

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

Section 5.02. This Agreement and all obligations of the Administrator and of IGA hereunder shall terminate on the date on which the Interim Fund Development Credit Agreement shall terminate in accordance with its terms, and the Administrator shall promptly notify IGA thereof.

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

ARTICLE VI

Miscellaneous Provisions

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

For the Administrator:

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)
64145 (MCI)

For IGA:

Danijela Ozme 7
Third Floor, Room 301/302
71000 Sarajevo
Bosnia and Herzegovina

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

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

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

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the interim trust fund established
with funds contributed by certain members of the
International Development Association pursuant to
Resolution No. IDA 184 of the Board of Governors
of the International Development Association

By /s/ Rory O'Sullivan

Authorized Representative

INVESTMENT GUARANTEE AGENCY

By /s/ Lamiija Kozaric

Authorized Representative

SCHEDULE 1

Agency Agreement

1. Except as the Administrator shall otherwise agree, the Agency Agreement shall provide, in a manner satisfactory to the Administrator, that the Agent Bank shall have, inter alia, the following duties and responsibilities:

(a) to issue a Standby Letter of Credit upon issuance of a Guarantee Contract by IGA and receive the related guarantee fee;

(b) to make Payments to the Guarantee Holders upon presentation of documentary evidence in a form specified in the Operations Manual, that IGA has admitted liability in the amount of the Payment in question or an arbitration award was rendered against IGA in the amount of the Payment in question;

(c) to ensure that the aggregate amount of Guarantee Contracts outstanding at any time shall not exceed the amount available in the Escrow Account and Additional Escrow Account at that time;

(d) to ensure, prior to issuing a Guarantee Contract to a given Guarantee Holder, that on the relevant date the maximum amount of such Guarantee Contract when added to the contingent liability under all then other outstanding Guarantee Contracts held by such Guarantee Holder does not exceed the sum of 3,000,000 DEM equivalent or such other amount as may be agreed upon by the Administrator from time to time;

(e) to report to the Administrator on a monthly basis on the Standby Letters of Credit issued during the preceding month; and

(f) to manage the Escrow Account and Additional Escrow Account in the manner prescribed by Schedule 3 to the Interim Fund Development Credit Agreement.

2. (a) The General Director of IGA shall, pursuant to Section 2.09(a) of the Interim Fund Development Credit Agreement, irrevocably designate the Agent Bank for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02(a) of the Interim Fund Development Credit Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, IGA shall, on behalf of the Borrower, entrust the Agent Bank with responsibility for the preparation of withdrawal applications under the Interim Fund Credit and for the collection of the documents and other evidence to be furnished to the Administrator in support of such applications.

SCHEDULE 2

Implementation Program

1. For the purpose of carrying out Part A of the Project, IGA shall:

(a) review applications for Guarantee Contracts to verify that each transaction proposed to be covered by the Guarantee Contract meets the following criteria:

(i) it does not involve Input Goods which are intended for a military or paramilitary purpose or for luxury consumption or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Administrator by notice to the Borrower and IGA:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667 or	-	Pearls, precious and semi-precious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

(ii) it does not involve Output Goods which are intended for a military or paramilitary purpose or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Administrator by notice to the Borrower and IGA;

Group	Sub-group	Description of Items
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors

(iii) it complies with the environmental standards satisfactory to the Administrator, which are set forth in the Operations Manual;

(iv) it serves a productive purpose by virtue of financing Input Goods to be used for production by enterprises in the territory of the Borrower or for enhancing the production capacity of such enterprises;

(v) its maturity is consistent with the production cycle or repayment capacity of the enterprise in the territory of the Borrower which receives the Input Goods; and

(vi) its value is not less than 100,000 DEM equivalent.

(b) ensure, prior to issuing a Guarantee Contract to a given Guarantee Holder, that on the relevant date the maximum amount of such Guarantee Contract when added to the contingent liability under all then other outstanding Guarantee Contracts held by such Guarantee Holder does not exceed the sum of 3,000,000 DEM equivalent or such other amount as may be agreed upon by the Administrator from time to time;

(c) verify with the Agent Bank prior to issuing a Guarantee Contract that the

aggregate amount of Guarantee Contracts outstanding at any time does not exceed the amount available in the Escrow Account and the Additional Escrow Account at that time;

(d) unless the Administrator directs otherwise by notice to the Borrower and IGA, submit to the Administrator for prior review and approval each application approved by IGA for a proposed Guarantee Contract together with IGA's evaluation of such application based on criteria set forth in paragraph (a) of this Schedule 2 to the Project Agreement;

(e) issue Guarantee Contracts, upon receipt of no objection from the Administrator and confirmation from the Agent Bank;

(f) notify the Agent Bank with respect to each Guarantee Contract issued or cancelled;

(g) notify the Borrower and the Administrator of any notice of potential Loss filed by the Guarantee Holder under a Guarantee Contract, investigate whether the events giving rise to the alleged Loss can be remedied, and, if so, use its best efforts to remedy or seek to remedy the same within 45 days of filing of such notice;

(h) within 15 days of filing of a claim by a Guarantee Holder, determine whether Payment is due and notify the Guarantee Holder, the Agent Bank and the Borrower of the determination made; and

(i) maintain copies of and retain for at least one year after the Closing Date, all Guarantee Contracts issued and all records relating to each such Guarantee Contract.

2. IGA shall not enter into any Guarantee Contracts under the Guarantee Facility after the First GF Closing Date.

