
CONFORMED COPY

CREDIT NUMBER 4080 BOS

Development Credit Agreement

(Education Restructuring Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 12, 2006

CREDIT NUMBER 4080 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 12, 2006, 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 May 1, 2004, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 6.03 (c) of the General Conditions is amended by replacing the words "corrupt or fraudulent" with the words "corrupt, fraudulent, collusive or coercive".

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) “Beneficiary” means, for a Secondary Education Grant (as hereafter defined), a secondary school established and operating in the territory of the Borrower and selected pursuant to the criteria set forth in the Program Manual (as hereafter defined);

(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 MOES” means the Ministry of Education and Science of the Federation, and includes any successor or successors thereto;

(f) “Federation Project Agreement” means the agreement between the Association and the Federation signed concurrently with the signature of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation Project Agreement;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “Ministry of Civil Affairs” or “MCA” means the Ministry of Civil Affairs of the Borrower, and includes any successor or successors thereto;

(i) “Procurement Plan” means the Borrower’s procurement plan, dated April 28, 2005, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 12 month periods (or longer) of Project implementation;

(j) “Program Manual” means the manual, dated April 26, 2005, including the Secondary Education Grants Manual and the Project Financial Manual, referred to in sub-paragraph 2 (c) of Schedule 4 to this Agreement and also referred to in sub-paragraphs 2 (a) and (b) 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, including the selection, approval, processing, financing, monitoring, implementation and supervision of the Secondary Education Grants;

(k) “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;

(l) “Project Coordination Secretariat” means the secretariat established for purposes of the Project within the Sector for Education, Science, Culture and Sports within the MCA, referred to in Section 6.01 (d) and Section 2 of Schedule 4 to this Agreement, as well as in Section 3 of Schedule 1 to the Project Agreements, pursuant to Decision No. 0134518/05, dated September 9, 2005, of the Minister of Civil Affairs, comprised of such qualified personnel, including, without limitation, personnel responsible for Project procurement and financial management, as has been agreed with the Association that are considered necessary for Project purposes, having experience acceptable to the Association and employed under terms of reference satisfactory to the Association, and includes any successor or successors thereto;

(m) “Project Steering Board” means the board, referred to in Section 1 of Schedule 4 to this Agreement, consisting of the Borrower’s Minister of Civil Affairs, the Federation Minister of Education and Science, the RS Minister of Education and Culture, and the Cantonal Ministers of Education, having the role and responsibilities, and operating under the procedures set forth in the Program Manual, and includes any successor or successors thereto;

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

(o) “RS MOEC” means the Ministry of Education and Culture of Republika Srpska, and includes any successor or successors thereto;

(p) “RS Project Agreement” means the agreement between the Association and RS signed concurrently with the signature of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS Project Agreement;

(q) “School Grants Evaluation Board” means the board established for purposes of the Project to, among other matters, review the pre-evaluation of Grant proposals prepared by the School Grants Quality Assurance Team and give final approval to or feedback on these proposals, and referred to in Section 4 of Schedule 4 to this Agreement and in the Program Manual, composed of six (6) members, four of which are appointed by the Minister of Education and Science of the Federation and two of which are appointed by the Minister of Education and Culture of Republika Srpska, and includes any successor or successors thereto;

(r) “School Grants Quality Assurance Team” means the group established for purposes of the Project to, among other matters, (i) carry out pre-evaluations of all Grant proposals, (ii) prepare assessment reports for such proposals before their final review and approval by the School Grants Evaluation Board, and (iii) provide written comments to the Project Coordination Secretariat and the Project Steering Board on the evaluation reports referred to in Section 6 of Schedule 4 to this Agreement, and referred to in Section 4 of Schedule 4 to this Agreement and in the Program Manual, consisting of specialists from the institutions with responsibility for the development and implementation of secondary school programs, one per Canton in the Federation, appointed by the respective Minister of Education of the Canton, and 5 for Republika Srpska, appointed by the Minister of Education and Culture of RS, and includes any successor or successors thereto;

(s) “Secondary Education Grant” or “Grant” means a grant made or proposed to be made to a Beneficiary, for a Sub-project (as hereafter defined), under Parts A.1 or B.1 of the Project, from the proceeds of the Credit, and that fulfills the criteria and has been made following the procedures set forth in the Program Manual, and is on terms and conditions referred to in paragraph 6 of Schedule 1 to the Project Agreements;

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

(u) “Sub-project” means, for a Secondary Education Grant, a project for the development or initial implementation of new broad based curricula or technical/vocational curriculum families for four year vocational education and training, core subject curriculum in all secondary schools, and the re-organization of school activities aimed at increasing enrollments in general secondary schools or four year vocational education and training programs, and to be carried out by a Beneficiary under Parts A.1 or B.1 of the Project; and

(v) “Subsidiary Credit Agreement” means either agreement to be entered into between the Borrower and each Entity pursuant to Section 3.01 (c) or (d) 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 this Agreement, an amount in various currencies equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000).

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: (i) 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; and (ii) amounts paid (or, if the Association should so agree, amounts to be paid) on account of withdrawals made by a Beneficiary under a Secondary Education Grant to meet the reasonable cost of goods and services required for a Sub-project under Parts A.1 and B.1 of the Project in respect of which the withdrawal from the Credit Account is required.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a separate special deposit 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, 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 March 31, 2010, 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 15th and July 15th in each year.

Section 2.07., The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15th and July 15th commencing July 15, 2015, and ending January 15, 2025. 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: (i) 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, (ii) 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 (iii) shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the implementation program set forth in Schedule 4 to this Agreement and the Program Manual.

(c) 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) and A (2) 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; and
 - (v) the principal amount of the Subsidiary Credit shall be repayable in Euro and shall be the equivalent in Special Drawing Rights (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.
- (d) 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 (3) and B (4) 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; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in Euro and shall be the equivalent in Special Drawing Rights (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.

(e) 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. (a) Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Parts A and B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower, through the Project Coordination Secretariat, shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

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) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, commencing with the accounts for the year ending December 31, 2005, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) 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) retain, until at least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (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 Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Section 7 of Schedule 4 of this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through, the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

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; and

(c) Any action shall have been taken for the dissolution, disestablishment or suspension of the Project Steering Board, the Project Coordination Secretariat, the School Grants Evaluation Board or the School Grants Quality Assurance Team.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified namely that, the events specified in paragraphs (a) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

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;

(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; and

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

(c) the School Grants Evaluation Board and the School Grants Quality Assurance Team have been established by the Federation and Republika Srpska, respectively, in a manner and under terms of reference satisfactory to the Association;

(d) the Project Coordination Secretariat has been established by the Minister of Civil Affairs, and a Grants coordinator and an education finance coordinator have been hired, and an individual consultant responsible for Project procurement and an individual consultant responsible for Project financial management have been contracted, to form part of the Project Coordination Secretariat; and

(e) the Association has completed satisfactorily its financial management assessment of the Project.

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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(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 the City of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Ljerka Maric

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dirk Reinermann

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, Consultants' services, Training, audit costs, Secondary Education Grants under Part A.1 of the Project, and Incremental operating costs	3,800,000	100%
(2) Tertiary education restructuring support under Part A.2(d) of the Project	660,000	100%
SUB-TOTAL	<u>4,460,000</u>	
B. <u>Part B of the Project (Republika Srpska)</u>		
(3) Goods, Consultants' services, Training, audit costs, Secondary Education Grants under Part B.1 of the Project, and Incremental operating costs	1,900,000	100%
(4) Tertiary education restructuring support under Part B.2(d) of the Project	340,000	100%
SUB-TOTAL	<u>2,240,000</u>	
TOTAL	<u>6,700,000</u>	

2. For the purposes of this Schedule:

(a) the term “Training” means expenditures for 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;

(b) 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 Project Steering Board, the Project Coordination Secretariat, the School Grants Evaluation Board and the School Grants Quality Assurance Team, as the case may be, on account of Project implementation, management and monitoring, including the cost of vehicle operation (including fuel) and repair, local travel, and other miscellaneous costs as may be agreed with the Association, but excluding salaries or honoraria of officials and employees of the Borrower, the Federation and RS, including, without limitation, salaries or honoraria of officials and employees of the Project Steering Board, the Project Coordination Secretariat, the School Grants Evaluation Board, or the School Grants Quality Assurance Team; and

(c) the term “Tertiary education restructuring support” means reasonable and necessary expenditures, as approved by the Association on the basis of activity plans and budgets acceptable to the Association, incurred by the Canton ministries of education and finance in jurisdictions which fund tertiary education institutions, the RS MOEC, the MCA, universities and the higher education financing council (when the latter is established), as the case may be, on account of expenditures for consultants’ services, goods, training workshops and study tours relating to support for the shift in public funding of tertiary education away from Cantons and the Republika Srpska to the State level.

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;

(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 Program Manual, satisfactory to the Association, has been adopted by such Entity; and
- (iv) 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; and

(c) Tertiary education restructuring support under Part A.2 (d) or Part B.2 (d) of the Project, as the case may be, unless appropriate legislation satisfactory to the Association has been promulgated that:

- (i) assigns the responsibility for financing tertiary education at the level of the State and establishes an appropriate framework for public funding;
- (ii) abolishes the legal independence of faculties by unifying them into universities or colleges; and
- (iii) establishes a body to provide policy oversight.

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) increase participation in general and broad-based secondary education programs; and (b) improve the efficiency of education delivery, especially in secondary education, in order to allow public funding to be refocused on improving access and quality in the education system.

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. Secondary Education Grants Program

Financing of Sub-projects, through the provision of Secondary Education Grants to Beneficiaries, to facilitate (a) the development or initial implementation of new broad based curricula or technical/vocational curriculum families for four-year vocational education and training, (b) the development or adaptation of core subject curriculum in all secondary schools, (c) the reorganization of school activities aimed at increasing enrollments in general secondary schools and four year vocational education and training programs, as well as in-service retraining designed to improve the capacity of teachers to deliver new programs, through the provision of consulting services, training, workshops, study tours, and goods.

2. Education Finance and Management

(a) Design and implementation of formula-based financing mechanisms for publicly provided general education, as well as (b) the extension of the education management information system to include a module on pre-school education, (c) participation in international assessments of student achievement, and (d) assistance for implementation of a shift in public funding of tertiary education away from Cantons and the Republika Srpska to the State level, through the provision of consulting services, training and goods.

3. Project Implementation

Provision of technical assistance, training, equipment and incremental operating costs for Project implementation.

Part B: Republika Srpska

1. Secondary Education Grants Program

Financing of Sub-projects, through the provision of Secondary Education Grants to Beneficiaries, to facilitate (a) the development or initial implementation of new broad based curricula or technical/vocational curriculum families for four-year vocational education and training, (b) the development or adaptation of core subject curriculum in all secondary schools, (c) the reorganization of school activities aimed at increasing enrollments in general secondary schools and four year vocational education and training programs, as well as in-service retraining designed to improve the capacity of teachers to deliver new programs, through the provision of consulting services, training, workshops, study tours, and goods.

2. Education Finance and Management

(a) Design and implementation of formula-based financing mechanisms for publicly provided general education, as well as (b) the extension of the education management information system to include a module on pre-school education, (c) participation in international assessments of student achievement, and (d) assistance for implementation of a shift in public funding of tertiary education away from Cantons and the Republika Srpska to the State level, through the provision of consulting services, training and goods.

3. Project Implementation

Provision of technical assistance, training, equipment and incremental operating costs for Project implementation.

* * *

The Project is expected to be completed by September 30, 2009.

SCHEDULE 3

Procurement

Section I. General

A. All goods and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided below in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding in accordance with the provisions of paragraphs 2.1 through 2.68 of the Procurement Guidelines.

B. Other Procurement Procedures

1. Shopping. Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping procedures in accordance with the provisions of paragraph 3.5 of the Procurement Guidelines.

2. Direct Contracting. Goods and technical services which are of a proprietary nature and costing \$25,000 equivalent or less, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.6 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

B. Other Procedures

1. Least-cost Selection. Services for Project audits estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Consulting services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines. On a case-by-case basis and with the Association's approval, Consultants' Qualifications could be used for contracts estimated to cost more than \$100,000, but less than \$200,000.

3. Single Source Selection. Services for Project audits previously selected in a centralized way by the Borrower's Ministry of Finance and Treasury, estimated to cost less than \$50,000 equivalent per contract, as well as services for international assessments of student achievement, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines.

5. Single Source of Individual Consultants. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, contracts for Single Source of Individual Consultants may be awarded to individual consultants on a sole-source basis.

6. Short-list. For purposes of paragraph 2.7 of the Consultant Guidelines, the short-list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely national consultants.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association:

(a) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$100,000 or more procured on the basis of International Competitive Bidding or Direct Contracting, as well as the first two Shopping contracts; and

(b) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more, each contract for consultants' services provided by an individual consultant estimated to cost the equivalent of \$50,000 or more, all Single Source Contracts with firms, the first two consulting contracts procured under the Consultants' Qualifications method, and all Sole Source Contracts with individual consultants.

All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

1. The Borrower shall ensure that the Project Steering Board is maintained for the entire duration of the Project and provides effective overall supervision of the Project.
2. The Borrower shall ensure that the Project Coordination Secretariat:
 - (a) is maintained for the entire duration of the Project;
 - (b) is staffed with suitably qualified personnel in number and under terms of reference satisfactory to the Association hired by the MCA or, in the case of consultants, contracted by the Federation MOES and the RS MOEC, as the case may be;
 - (c) facilitates and effectively coordinates overall Project implementation and manages the Secondary Education Grants program under Part A.1 and Part B.1 of the Project in accordance with the Program Manual;
 - (d) is responsible for and carries out Project procurement and financial management in accordance with the Program Manual, and prepares on a timely basis annual plans, budgets, and updates of the Procurement Plan; and
 - (e) for and on behalf of the Project Steering Board, monitors and evaluates Project performance in accordance with the indicators referred to in Section 7(a) below of this Schedule 4 and prepares progress implementation reports, as well as commissions the evaluations referred to in Section 6 below of this Schedule 4.
3. The Borrower shall ensure that the MCA and each Entity obtain a written no-objection from the Association prior to any hiring or dismissal of any consultant referred to in Section 6.01 (d) of this Agreement who is responsible for Project procurement or financial management within the Project Coordination Secretariat.
4. The Borrower shall ensure that the School Grants Evaluation Board and the School Grants Quality Assurance Team are maintained for the entire duration of the Project with suitably qualified personnel in sufficient numbers required for the Project and fulfill their responsibilities in accordance with the Program Manual.
5. The Borrower shall ensure that all the ministries, departments, agencies, and other organs of the Borrower involved in the implementation of the Project, including, without limiting the generality of the foregoing, the Project Coordination Secretariat, are provided with adequate resources, staff and facilities for the performance of their respective responsibilities and obligations, and that they properly discharge such responsibilities and obligations in a timely and effective manner.

6. The Borrower shall ensure that the Project Coordination Secretariat commissions at least two external evaluations of the Secondary Education Grants program by qualified independent evaluators, under terms of reference which shall have been approved by the School Grants Quality Assurance Team, the first of which evaluation reports will be available for purposes of the report mentioned in Section 7(b) below of this Schedule 4 and the second evaluation report will be available for purposes of the plan specified under Section 8 below of this Schedule 4. The evaluations will make use of standard data reporting required by the Program Manual. Once completed, each report will be reviewed by the School Grants Quality Assurance Team, which shall provide its written comments to the Project Coordination Secretariat and the Project Steering Board within fifteen (15) days of its receipt of the final evaluation report.

7. The Borrower shall:

(a) establish and maintain policies and procedures adequate to enable the Project Steering Board, through the Project Coordination Secretariat, to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) cause the Project Coordination Secretariat to prepare, under terms of reference satisfactory to the Association and the Project Steering Board, and furnish to the Association and the Project Steering Board, on or about October 1, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) cause the Project Steering Board to review with the Association, by November 30, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

8. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall cause the Project Steering Board to:

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

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

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) and (2) in respect of Part A of the Project, and Categories (3) and (4) in respect of Part B of the Project 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 □750,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to □400,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,000,000.

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 Association has received evidence satisfactory to it that the 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 Borrower shall furnish to the Association a request or requests for 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 Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the 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 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 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 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 the Special Account:

- (a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

- (b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) f(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

- (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 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 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 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 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 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 the 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 the 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 Account.

(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.