

CONFORMED COPY

CREDIT NUMBER 3262 BOS

Development Credit Agreement

(Enterprise and Bank Privatization Adjustment Credit)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated as of July 5, 1999

CREDIT NUMBER 3262 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated as of July 5, 1999, between BOSNIA AND HERZEGOVINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated February 25, 1999 from the Borrower, the Federation of Bosnia and Herzegovina (the Federation, as hereinafter defined) and Republika Srpska (RS, as hereinafter defined) describing a program of actions, objectives and policies designed to achieve structural adjustment of the economies of the Borrower, the Federation and RS (hereinafter called the Program), declaring the commitment of the Borrower, the Federation and RS to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower, the Federation and RS, by making the Credit in two tranches as hereinafter provided;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit

Agreements" of the Association, dated January 1, 1985 (as amended through December 2, 1997), with the modifications thereto set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

"Project' means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.";

(b) Section 4.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 (a) of the Development Credit Agreement.";

(c) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions.";

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified below), 9.07 and 9.08 are renumbered Sections 9.04, 9.05, 9.06 and 9.07 respectively; and

(f) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.".

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) "Deposit Account" means the account referred to in Section 2.02 (a) of this Agreement.

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

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

(d) "Holding-company" means a State-owned enterprise which has substantial ownership, control or management of any other enterprise or enterprises. The term "substantial ownership" means ownership of twenty-five percent or more shares in an enterprise.

(e) "Large-scale enterprises" means the State-owned enterprises that are not Small-scale enterprises, as such term is defined hereinafter.

(f) "Privatization" means the transfer of ownership, control and management of State-owned enterprises, including State-owned banks, to the private sector through the sale of assets of, equity capital in, or the transfer of management control over a State-owned enterprise/bank to the private sector, including the sale of a business as a going concern.

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

(h) "RS Subsidiary Credit Agreement" means the agreement to be entered into between the Borrower and RS, pursuant to Section 3.01 of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules supplemental to the RS Subsidiary Credit Agreement.

(i) "Small-scale enterprises" means, in the case of the Federation, State-owned enterprises which have less than fifty employees and assets valued at less than Deutsche Marks 500,000 equivalent, and, in the case of RS, State-owned enterprises in which RS and its agencies have capital investment less than Deutsche Marks 300,000 equivalent.

(j) "State-owned enterprises" or "State-owned banks" means those legal entities that are significantly owned or controlled by the Federation or RS either directly or indirectly through another legal entity significantly owned or controlled by the Federation or RS. The term "significantly" represents twenty five percent or more shares in an enterprise/bank.

(k) "Subsidiary Credit" means a credit provided under a Subsidiary Credit Agreement.

(l) "Subsidiary Credit Agreement" means either the Federation Subsidiary Credit Agreement or the RS Subsidiary Credit Agreement, as the said agreement may be amended from time to time, and such term includes all schedules supplemental to each Subsidiary Credit Agreement; and "Subsidiary Credit Agreements" means said agreements, collectively.

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 thirty seven million six hundred thousand Special Drawing Rights (SDR 37,600,000).

Section 2.02. (a) The Borrower shall, prior to furnishing to the Association the first request for withdrawal from the Credit Account, open and thereafter maintain in its central bank a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(b) Subject to the provisions of paragraphs (c), (d) and (e) of this Section, the Borrower shall be entitled to withdraw and use the proceeds of the Credit withdrawn from the Credit Account and deposited in the Deposit Account in support of the Program as follows: SDR 22,560,000 for the Federation and SDR 15,040,000 for RS to enable them to carry out their respective parts of the Program.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No initial withdrawals (SDR 11,280,000 for the Federation and SDR 7,520,000 for RS) shall be made from the Credit Account unless:

(i) the State Privatization Law, satisfactory to the Association, has been promulgated;

(ii) in case of withdrawal for the Federation: (A) the Federation Subsidiary Credit Agreement has been executed with terms and conditions satisfactory to the Association and evidence, satisfactory to the Association, has been furnished to the Association that the Federation Subsidiary Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the parties thereto and is legally binding upon the Borrower and the Federation in accordance with its terms; and (B) the Association shall be satisfied, after an exchange of views as

described in Section 3.03 of this Agreement based on evidence satisfactory to the Association: (1) with the progress achieved by the Borrower, the Federation and RS in the carrying out of the Program; and (2) that the actions described in Part A of Schedule 2 to this Agreement have been taken by the Federation. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved, or caused the Federation to achieve progress, and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the Federation's share of the Credit or any part thereof; and

(iii) in case of withdrawal for RS: (A) the RS Subsidiary Credit Agreement has been executed with terms and conditions satisfactory to the Association and evidence, satisfactory to the Association, has been furnished to the Association that the RS Subsidiary Credit Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the parties thereto and is legally binding upon the Borrower and RS in accordance with its terms; and (B) the Association shall be satisfied, after an exchange of views as described in Section 3.03 of this Agreement based on evidence satisfactory to the Association: (1) with the progress achieved by the Borrower, the Federation and RS in the carrying out of the Program; and (2) that the actions described in Part A of Schedule 3 to this Agreement have been taken by RS. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved, or caused RS to achieve progress, and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the RS's share of the Credit or any part thereof.

(e) No further withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached SDR 11,280,000 in case of the Federation and SDR 7,520,000 in case of RS, unless the Association shall be satisfied, after an exchange of views as described in Section 3.03 of this Agreement based on evidence satisfactory to the Association: (i) with the progress achieved by the Borrower, the Federation and RS in the carrying out of the Program; and (ii) that the actions described in Part B of Schedules 2 and 3 to this Agreement have been taken by the Federation and RS respectively. If, after said exchange of views, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved, or caused the Federation and RS to achieve progress, and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

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

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

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

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 1 and October 1 commencing October 1, 2009 and ending April 1, 2034. Each installment to and including the installment payable on April 1, 2019, shall be one and a quarter percent (1 & 1/4%) of such principal amount, and each installment thereafter shall be two and a half percent (2 & 1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

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

ARTICLE III

Particular Covenants

Section 3.01. The Borrower shall relend an amount in Dollars equivalent to SDR 22,560,000 out of the proceeds of the Credit to the Federation under a subsidiary credit agreement to be entered into between the Borrower and the Federation, and shall relend an amount in Dollars equivalent to SDR 15,040,000 out of the proceeds of the Credit to RS under a subsidiary credit agreement to be entered into between the Borrower and RS on the following principal terms and conditions:

(a) the term of each Subsidiary Credit shall be thirty five (35) years, including a 10 year grace period;

(b) the Borrower shall charge the Federation and RS a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of each Subsidiary Credit not withdrawn from time to time;

(c) the Borrower shall charge the Federation and RS a service charge on the principal amount of each Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;

(d) the principal amount of each Subsidiary Credit shall be repayable in Dollars and shall be the equivalent in Dollars (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 Program;

(e) the Borrower shall have the right to require modification in the repayment terms of each Subsidiary Credit in conformity with the provisions of Section 2.07 (b) of this Agreement; and

(f) the withdrawal of the Subsidiary Credit by the Federation and RS shall be conditional upon the Federation and RS taking the actions specified in Schedules 2 and 3 hereof respectively to the satisfaction of the Association.

Section 3.02. The Borrower shall exercise its rights under the Subsidiary Credit Agreements in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Program, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Credit Agreements or any provision thereof.

Section 3.03. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedules 2 and 3 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedules 2 and 3 to this Agreement.

Section 3.04. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The date sixty (60) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of Foreign Trade and Economic Relations of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Foreign Trade and
Economic Relations
Musala 9
71000 Sarajevo
Bosnia and Herzegovina

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)

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 District of Columbia, United States of America, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Ante Jelavic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Rory O'Sullivan

Authorized Representative

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. 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 not be excluded;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Subgroup	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	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, nuclear reactors
728	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)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Section 2.02 (d) of this Agreement Actions to be taken by the Federation

PART A: Bank Restructuring and Privatization

1. The Federation has initiated the liquidation (closure) of the largest insolvent bank in the Federation.

2. The Federation has adopted a policy not to establish or extend any credit lines using budget resources or establish any new bank or increase capital subscription in any existing bank.

3. The Federation has established a Bank Privatization Unit and provided the necessary funds, facilities and other resources, including qualified and experienced staff in adequate numbers, for the effective operation thereof, as deemed satisfactory by the Association.

4. The Federation Government has submitted a draft Law on Deposit Insurance, satisfactory to the Association, for enactment by the Federation Parliament.

Enterprise Restructuring

5. The Federation Parliament has amended the Enterprise Privatization Law, satisfactory to the Association, to ensure consistency with the principle of

non-discrimination contained in the Borrower's State Privatization Law.

6. The Federation Parliament has enacted a Law on Management Companies and Privatization Investment Funds, satisfactory to the Association, to allow citizens to invest their claims/vouchers in enterprises through funds as well as individually.

7. The Federation has initiated privatization through auctions or issuance of tenders for at least forty-five (45) Small-scale enterprises, in a manner satisfactory to the Association.

8. The Federation has completed the necessary staffing and operationalization of all Cantonal privatization agencies, as required by the Association.

PART B: Bank Restructuring and Privatization

1. The Federation has completed the liquidation of the largest insolvent bank in the Federation.

2. The Federation has issued a prospectus for the sale of Union Bank or closed and initiated the process of liquidation of Union Bank.

3. The Federation has issued a prospectus for the sale of Central Profit Bank or closed and initiated the process of liquidation of Central Profit Bank.

4. The Federation has taken actions, satisfactory to the Association, to reach agreement with strategic private investors on the privatization of Federation Investment Bank.

5. The Federation has adhered to its policy not to establish or extend any credit lines using budget resources or establish any new bank or increase capital subscription in any existing bank.

6. The Federation has enacted a Law on Deposit Insurance, satisfactory to the Association.

7. The Federation has established a Deposit Insurance Agency and the said Agency has started functioning with deposit insurance reserve capital in place.

Enterprise Restructuring

8. The Federation has completed privatization of about 500 Small-scale enterprises.

9. The Federation has begun public subscription for shares in at least 100 Large-scale enterprises.

10. The Federation has issued a prospectus for sale of at least one Holding-company.

11. The Federation has established the regulatory framework necessary for privatization of telecommunication and electric power generation and distribution.

SCHEDULE 3

Actions Referred to in Section 2.02 (d) of this Agreement
Actions to be taken by Republika Srpska

PART A: Bank Restructuring and Privatization

1. RS Parliament has enacted a Law on Opening Balance Sheet, satisfactory to the Association, to provide for a secure basis for rapid privatization of banks and enterprises.

2. RS has adopted a policy not to establish or extend any credit lines using budget resources or establish any new bank or increase capital subscription in any existing bank.

3. RS Parliament has enacted a Law on Bank Privatization, satisfactory to the Association.

4. RS has established a Bank Privatization Unit and provided the necessary funds, facilities and other resources, including qualified and experienced staff in adequate

numbers, for the effective operation thereof, as deemed satisfactory by the Association.

Enterprise Restructuring

5. RS Parliament has adopted a Laws on Enterprise Privatization, satisfactory to the Association, to ensure transparency of the privatization process and equitable treatment of residents.

6. RS has adopted a rapid and rigid timeline for privatization, acceptable to the Association.

PART B: Bank Restructuring and Privatization

1. RS has established solvency of State-owned banks, and taken control of and closed at least two insolvent State-owned banks, including one such bank with the largest negative capital (being the difference between liabilities and assets).

2. RS has issued sales prospectuses for three State-owned banks in which RS has the largest capital investment.

3. RS has adhered to its policy not to establish or extend any credit lines using budget resources or establish any new bank or increase capital subscription in any existing bank.

4. RS has passed a Law on Deposit Insurance, satisfactory to the Association.

5. RS has established a Deposit Insurance Agency and the said Agency has started functioning with deposit insurance reserve capital in place.

Enterprise Restructuring

6. RS has completed privatization of at least thirty percent Small-scale enterprises.

7. RS has prepared and executed international tenders of at least three Large-scale enterprises.

8. RS has issued a prospectus for sale of at least one Holding-company.

