

CONFORMED COPY

CREDIT NUMBER 3534-BOS

Development Credit Agreement

(Third Electric Power Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 19, 2001

CREDIT NUMBER 3534-BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated as of October 19, 2001, between BOSNIA AND HERZEGOVINA (the Borrower or BiH) 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 (the Federation) through Elektroprivreda Bosnia and Herzegovina (EPBiH) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to EPBiH a portion of the proceeds of the Credit as provided in this Agreement;

(C) Part B of the Project will be carried out by the Federation through Elektroprivreda of Croatian Community of Herzeg-Bosnia (EPHZHB) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to EPHZHB a portion of the proceeds of the Credit as provided in this Agreement;

(D) Part C of the Project will be carried out by Republika Srpska (RS) through Elektroprivreda Republika Srpska (EPRS) with the Borrower's assistance, and as part of such assistance, the Borrower will make available to EPRS a portion of the proceeds of the Credit as provided in this Agreement;

(E) In order to finance Part D of the Project, the Borrower intends to enter into agreements (the Cofinancing Agreements) with other external agencies, providing the Borrower with a total amount (the Cofinancing Amount) equivalent to about

\$175,100,000; 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 Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement, of even date herewith between the Association and Federation/EPBiH/EPHZHB and between the Association and RS/EPRS, respectively;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Eligible Categories" means, in respect of the Special Account for Part A of the Project, Categories (1)(a) and (3)(a) set forth in the table in Part A.1 of Schedule 1 to this Agreement; in respect of the Special Account for Part B of the Project, Categories (1)(b), (2) and (3)(b) set forth in said table; and in respect of the Special Account for Part C of the Project, Categories (1)(c) and (3)(c) set forth in said table;

(b) "Eligible Expenditures" means, in respect of the Special Account for Part A of the Project, the expenditures for goods and services referred to in Section 2.02.(a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories; in respect of the Special Account for Part B of the Project, the expenditures for goods and services referred to in Section 2.02(a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories; and in respect of the Special Account for Part C of the Project, the expenditures for goods and services referred to in Section 2.02(a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account's respective Eligible Categories;

(c) "EPBiH" means Elektroprivreda Bosnia and Herzegovina, a legal entity established pursuant to its Charter and existing under the laws of the Federation, and includes any successor or successors thereto acceptable to the Association;

(d) "EPBiH PIU" means the Project Implementation Unit as referred to in paragraph 1 in Schedule 1 of the Federation/EPBiH/EPHZHB Project Agreement;

(e) "EPHZHB" means Elektroprivreda of Croatian Community of Herzeg-Bosnia, a legal entity established pursuant to its Charter and existing under the laws of the Federation, and includes any successor or successors thereto acceptable to the Association;

- (f) "EPHZHB PIU" means the Project Implementation Unit as referred to in paragraph 1 in Schedule 1 of the Federation/EPBiH/EPHZHB Project Agreement;
- (g) "EPRS" means Elektroprivreda Republika Srpska, a legal entity established pursuant to its Charter and existing under the laws of RS, and includes any successor or successors thereto acceptable to the Association;
- (h) "EPRS PIU" means the Project Implementation Unit as referred to in paragraph 1 in Schedule 1 of the RS/EPRS Project Agreement;
- (i) "Federation" means the Federation of Bosnia and Herzegovina, a political sub-division of the Borrower, and includes any successor or successors thereto;
- (j) "Federation PIU" means the Project Implementation Unit referred to in paragraph 1 of the Schedule to the Federation/EPBiH/EPHZHB Project Agreement;
- (k) "Federation/EPBiH Subsidiary Credit Agreement" means the agreement to be entered or entered into between the Borrower and Federation/EPBiH pursuant to Section 3.01(b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Federation/EPBiH Subsidiary Credit Agreement;
- (l) "Federation/EPHZHB Subsidiary Credit Agreement" means the agreement to be entered or entered into between the Borrower and Federation/EPHZHB pursuant to Section 3.01(c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Federation/EPHZHB Subsidiary Credit Agreement;
- (m) "Federation/EPBiH/EPHZHB Project Agreement" means the agreement between the Association and Federation, EPBiH and EPHZHB, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation/EPBiH/EPHZHB Project Agreement;
- (n) "Independent System Operator" means an operator responsible for coordinating the operation of the transmission network on the territory of Bosnia and Herzegovina and ensuring stability, by fulfilling the functions described to it in the electricity and policy statements adopted by the Federation and RS on May 5, 2000 and April 20, 2000, respectively;
- (o) "PIP" means the Project Implementation Plan for the Project, dated April 30, 2001, as the same may be amended from time to time with the agreement of the Borrower and the Association;
- (p) "Policy Statements" means the electricity policy statements adopted by the Federation and RS on May 5, 2000 and April 20, 2000, respectively, and amended on May 25, 2000 and October 2, 2000, respectively, as they may be amended from time to time with the agreement of the Association;
- (q) "Project Management Report" means each report prepared in accordance with Section 4.02(b) of the Federation/EPBiH/EPHZHB Project Agreement and RS/EPRS Project Agreement;
- (r) "RS/EPRS Project Agreement" means the agreement between the Association and RS/EPRS, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS/EPRS Project Agreement;
- (s) "RS/EPRS Subsidiary Credit Agreement" means the agreement to be entered or entered into between the Borrower and RS/EPRS pursuant to Section 3.01(d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the RS/EPRS Subsidiary Credit Agreement;
- (t) "Special Accounts" means the accounts referred to in Part B of Schedule 1 to this Agreement;
- (u) "Subsidiary Credits" means the credits made pursuant to the Subsidiary Credit Agreements;
- (v) "Sub-Credits" means the credits to be made out of the proceeds of the Subsidiary Credits provided to EPBiH, EPHZHB and EPRS under respective Subsidiary Credit Agreements; and
- (w) "ZEKC" means the Joint Power Coordination Center established on the basis

of an agreement signed by EPBiH, EPHZHB and EPRS on November 3, 1998.

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 twenty six million four hundred thousand Special Drawing Rights (SDR 26,400,000).

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

Section 2.03. The Closing Date shall be March 31, 2005, 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 May 1 and November 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 May 1 and November 1, commencing November 1, 2011, and ending May 1, 2036. Each installment to and including the installment payable on May 1, 2021, shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-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 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 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 loan/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

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 this Agreement, shall cause the Federation/EPBiH/EPHZHB and RS/EPRS to perform in accordance with the provisions of the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement, respectively, all the obligations of the Federation/EPBiH/EPHZHB and RS/EPRS therein set forth, shall take and cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation/EPBiH/EPHZHB and RS/EPRS, to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purpose of Part A of the Project, the Borrower shall relend a portion of the proceeds of the Credit amounting to Dollars equivalent to nine million eight hundred and twenty seven thousand four hundred Special Drawing Rights (SDR 9,827,400) to the Federation and the Federation shall relend said proceeds of the Credit to EPBiH under a Subsidiary Credit Agreement to be entered into between the Borrower, Federation and EPBiH 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 principal amount of the Sub-Credit shall be repaid by the EPBiH to the Federation in Deutsche Marks or in such other currency as may be agreed upon between the Federation and the EPBiH in equal semi-annual installments over twenty years, including a grace period of five years; and the principal amount of the Subsidiary Credit shall be repaid by the Federation to the Borrower in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and the Federation in accordance with the provision of Section 2.07(a) of this Agreement; and
- (ii) the principal amount of the Subsidiary Credit repayable by the Federation and the principal amount of the Sub-Credit repayable by EPBiH shall each be the equivalent in Deutsche Marks or in any such other currency as may be selected under paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on account of the Federation/EPBiH Subsidiary Credit Agreement;
- (iii) interest shall be charged on the outstanding balance of the Sub-Credit at a rate equal to the rate of LIBOR plus three-quarter of one percent (0.75%). For purpose of this subparagraph the term "LIBOR" means the London interbank offered rate for six-month deposits in Dollars; and
- (iv) interest shall be charged at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time.

(c) For the purposes of Part B of the Project, the Borrower shall relend a portion of the proceeds of the Credit amounting to Dollars equivalent to six million

nine hundred sixty five thousand three hundred Special Drawing Rights (SDR 6,965,300) to the Federation and the Federation shall relend said proceeds of the Credit to EPHZHB under a Subsidiary Credit Agreement to be entered into between the Borrower, Federation and EPHZHB 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 principal amount of the Sub-Credit shall be repaid by the EPHZHB to the Federation in Deutsche Marks or in such other currency as may be agreed upon between the Federation and the EPHZHB in equal semi-annual installments over twenty years, including a grace period of five (5) years; and the principal amount of the Subsidiary Credit shall be repaid by the Federation to the Borrower in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and the Federation in accordance with the provisions of Section 2.07(a) of this Agreement;
- (ii) the principal amount of the Subsidiary Credit repayable by the Federation and the principal amount of the Sub-Credit repayable by EPHZHB shall each be the equivalent in Deutsche Marks or in any such other currency as may be selected under paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on account of the Federation/EPHZHB Subsidiary Credit Agreement; and
- (iii) interest shall be charged on the outstanding balance of the Sub-Credit at a rate equal to the rate of LIBOR plus three-quarter of one percent (0.75%). For purpose of this subparagraph the term "LIBOR" means the London interbank offered rate for six-month deposits in Dollars; and
- (iv) interest shall be charged at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time.

(d) For the purposes of Part C of the Project, the Borrower shall relend the proceeds of the Credit amounting to Dollars equivalent to nine million six hundred and seven thousand three hundred Special Drawing Rights (SDR 9,607,300) to RS and RS shall relend said proceeds of the Credit to EPRS under a Subsidiary Credit Agreement to be entered into between the Borrower, RS and EPRS 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 principal amount of the Sub-Credit shall be repaid by EPRS to RS in Deutsche Marks or in such other currency as may be agreed upon between RS and EPRS in equal semi-annual installments over twenty years, including a grace period of five years; and the principal amount of the Subsidiary credit shall be repaid by RS to the Borrower in Deutsche Marks or in such other currency as may be agreed upon between the Borrower and RS in accordance with the provisions of Section 2.07(a) of this Agreement;
- (ii) the principal amount of the Subsidiary Credit repayable by RS and the principal amount of the Sub-Credit repayable by EPRS shall each be the equivalent in Deutsche Marks or in any such other currency as may be selected under paragraph (i) above (determined as of the date, or respective dates of repayment) of the value of the currency or currencies withdrawn from the Credit Account on account of the RS/EPRS Subsidiary Credit Agreement;
- (iii) interest shall be charged on the outstanding balance of the Sub-Credit at a rate equal to the rate of LIBOR plus three-quarter of one percent (0.75%). For purpose of this subparagraph the term "LIBOR" means the London interbank offered rate for six-month deposits in Dollars; and
- (iv) interest shall be charged at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, services and works required for 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.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(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 Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.04. 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 Parts A and B of the Project shall be carried out by the Federation/EPBiH/EPHZHB, and in respect of Part C of the Project shall be carried out by RS/EPRS, pursuant to Section 2.02. of the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement.

Section 3.05. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about April 30, 2003, 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) review with the Association, by June 30, 2003, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, 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 views on the matter.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section, including those for the Special Accounts and project accounts, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) The Federation or EPBiH or EPHZHB shall have failed to perform any of its obligations under the Federation/EPBiH/EPHZHB Project Agreement.

(b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation or EPBiH or EPHZHB will be able to perform its obligations under the Federation/EPBiH/EPHZHB Project Agreement.

(c) RS or EPRS shall have failed to perform any of its obligations under the RS/EPRS Project Agreement.

(d) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that RS or EPRS will be able to perform its obligations under the RS/EPRS Project Agreement.

(e) The Cofinancing Agreements shall have failed to become effective by June 30, 2002, or such later date or dates as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) or (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; and

(b) the event specified in paragraph (f)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (f)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

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

(a) the Federation/EPBiH Subsidiary Credit Agreement, the Federation/EPHZHB Subsidiary Credit Agreement and the RS/EPRS Subsidiary Credit Agreement have been executed on behalf of the parties thereto;

(b) auditors have been appointed pursuant to and in accordance with Section 4.01(b) of this Agreement and Section 4.01(b) of the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement; and

(c) the EPBiH PIU, EPHZHB PIU and the EPRS PIU have appointed a procurement officer acceptable to the Association.

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

(a) that EPBiH is a legal entity duly formed pursuant to its Charter and validly existing under the laws of the Borrower and is fully empowered and duly authorized to enter into the Federation/EPBiH/EPHZHB Project Agreement and the Federation/EPBiH Subsidiary Credit Agreement and to assume and carry out the obligations thereunder.

(b) that EPHZHB is a legal entity duly formed pursuant to its Charter and validly existing under the laws of the Federation and is fully empowered and duly authorized to enter into the Federation/EPBiH/EPHZHB Project Agreement and the Federation/EPHZHB Subsidiary Credit Agreement and to assume and carry out the obligations thereunder.

(c) that EPRS is a legal entity duly formed pursuant to its Charter and validly existing under the laws of RS and is fully empowered and duly authorized to enter into the RS/EPRS Project Agreement and the RS/EPRS Subsidiary Credit Agreement and to assume and carry out the obligations thereunder.

(d) that the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement have been duly authorized or ratified by the Federation/EPBiH/EPHZHB and by RS/EPRS and are legally binding upon the Federation/EPBiH/EPHZHB and RS/EPRS in accordance with their terms.

(e) that the Federation/EPBiH Subsidiary Credit Agreement, the Federation/EPHZHB Subsidiary Credit Agreement, and the RS/EPRS Subsidiary Credit Agreement have been duly authorized or ratified by and are legally binding upon the Federation/EPBiH, the Federation/EPHZHB, and the RS/EPRS in accordance with their 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 Articles III and IV of this Agreement and the provisions of paragraph (b) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty 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 Foreign Trade and Economic Relations and the Minister of Treasury of Institutions are severally designated as the representatives 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 Treasury of Institutions

Crg BiH 1
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:
387 33 471822

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 Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Azra Hadziahmetovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Ingram

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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:

Category	Amount of the Credit Allocated (Expressed in SDR)	% of Expenditures to be Financed
(1) Goods (including associated works and services)		100% of foreign expenditures, 100% of local expenditures (ex-
(a) Part A.1 of the Project	7,917,400	factory cost) and 85% of local expenditures for
(b) Part B.1 of the Project	2,865,300	other items pro-
(c) Part C.1 of the Project	7,697,300	cured locally
(2) Works Under Part B.2 of the Project	2,190,000	85%

(3)	Consultants' services		100%
	(a)	Part A.2 of the Project	1,910,000
	(b)	Part B.3 of the Project	1,910,000
	(c)	Part C.2 of the Project	1,910,000
		TOTAL	26,400,000

2. For the purposes of this Schedule:

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

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

B. Special Accounts

1. The Borrower shall open and maintain in Dollars three special deposit accounts, namely the EPBiH Special Account, the EPHZHB Special Account, and the EPRS Special Account in a commercial bank or banks, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Accounts shall be made as follows:

upon receipt by the Association of Project Management Reports pursuant to Section 4.02 (b) of the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of the Annex to this Schedule 1.

3. Payments out of each Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of each 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.

4. Notwithstanding the provisions of Part B. 2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02. (b) of the Federation/EPBiH/EPHZHB Project Agreement and the RS/EPRS Project Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) if the Borrower shall have failed to furnish to the Association within the period of time specified in Section 4.01 (b) (ii) of the Project Agreements, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of (A) the records and accounts for any Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into said Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of this Agreement.

Annex To SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account to be made on the basis of Project Management Reports, shall be deposited by the Association into the respective Special Accounts in accordance with the provisions of this Schedule 1 to this Agreement. Each such deposit into a Special Account shall be withdrawn by the Association from the Credit Account under one or more of said Special Accounts' Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into a Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Accounts an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in said Special Accounts, shall not exceed the equivalent of two million three hundred thousand Dollars (\$2,300,000) in respect of the EPBiH Special Account for Part A of the Project, shall not exceed the equivalent of one million five hundred thousand (\$1,500,000) in respect of the EPHZHB Special Account for Part B of the Project, and shall not exceed the equivalent of two million two hundred thousand (\$2,200,000) in respect of the EPRS Special Account for Part C of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) continue the Borrower's post conflict reconstruction in the power sector; (ii) ensure access to reliable lower cost electricity, to be supplied with reduced environmental and safety risks; and (iii) improve cost recovery by EPBiH, EPHZHB and EPRS.

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: EPBiH

1. Transmission Lines

Reconstruction of lines: TL 400 kV Sarajevo 10 - Mostar 4, TL 400 kV Sarajevo 10 - Sarajevo 20, TL 400 kV Mostar 4 - Gacko, TL 400 kV Visegrad - Tuzla, TL 400 kV Ugljevik - Ernestinovo, TL 220 kV Jajce - Mraclin, TL 220 kV Tuzla - Gradacac - Djakovo, and TL 110 kV Mostar - Nevesinje.

2. Technical Assistance

Provision of technical assistance to the staff of the EPBiH PIU for procurement and monitoring of implementation of the Project; strengthening the procurement capacity of the staff of the said EPBiH PIU; follow-up work on facilitating the corporatization and commercialization of EPBiH, including the establishment of financial management and management information systems; and carrying out a social survey to identify consumers in need of assistance to pay for electricity.

Part B: EPHZHB

1. Transmission Lines

Reconstruction of transmission lines: TL 400 kV Sarajevo 10 - Mostar 4, TL 400 kV Mostar 4 - Gacko, TL 400 kV Ugljevik - Ernestinovo, TL 220 kV Jajce - Mraclin, and TL 220 kV Kakanj - Prijedor.

2. Hydropower station

Rehabilitation of power tunnel and surge shaft of Rama Hydropower Station.

3. Technical Assistance

Provision of technical assistance to the staff of the EPHZHB PIU for procurement and monitoring of implementation of the Project; strengthening the procurement capacity of the staff of the said EPHZHB PIU; follow-up work on facilitating the corporatization and commercialization of EPHZHB, including the establishment of financial management and management information systems; and carrying out a social survey to identify consumers in need of assistance to pay for electricity.

Part C: EPRS

1. Transmission Lines

Reconstruction of transmission lines: TL 400 kV Visegrad - Tuzla, TL 400 kV Mostar 4 - Gacko, TL 400 kV Sarajevo 10 - Sarajevo 20, TL 400 kV Ugljevik - Ernestinovo, TL 220 kV Jajce - Prijedor, TL 220 kV Prijedor - Sisak, TL 220 kV Gradacac - Djakovo, TL 110 kV Mostar - Nevesinje, TL 220 kV Dubrovnik - Trebinje.

2. Technical Assistance

Provision of technical assistance to the staff of the EPRS PIU for procurement and monitoring of implementation of the Project; strengthening the procurement capacity of the staff of the said EPRS PIU; follow-up work on facilitating the corporatization and commercialization of EPRS, including the establishment of financial management and management information systems; and carrying out a social survey to identify consumers in need of assistance to pay for electricity.

Part D: Other Project Activities not Financed under the Credit

1. Substations

a. Substations (EPBiH)

Rehabilitation of primary electrical equipment and secondary equipment for: TS 400/220/110 kV Tuzla; TS 400/110 kV Sarajevo 10; SG 220 kV Kakanj; SG 220 kV Jablanica; TS 220/110 kV Zenica 2; TS 220/110 kV Bihac 1; TS 220/110/35/10(20) kV Gradacac; TS 110/35/10 kV Mostar 2.

b. Substations (EPHZHB)

Rehabilitation of primary electrical equipment and secondary equipment for: TS

400/220/110/35 kV Mostar 4; TS 220/110/35 kV Jajce 2; TS 220 kV Mostar 3.

c. Substations (EPRS)

Rehabilitation of primary electrical equipment and secondary equipment for: TS 400/220/110 kV Visegrad 370; TS 400/110/x kV Ugljevik; TS 400/220/110 kV Trebinje; TS 400/110/x kV Banja Luka 6; TS 400/110/x kV Gacko; TS 400/220/110 kV Sarajeco 20 (Lukavica); TS 220/110 kV Prijedor 2.

2. Supervisory Control and Data Acquisition System

Provision of a supervisory control and data acquisition system, comprising three regional control centers and an overall central dispatch center, together with a telecommunications system, to interconnect the regional centers with their 400 kV, 220 kV and selected 110 kV substations and hydro/thermal generating plant, as well as between the regional and central dispatch center's supervisory control and data acquisition systems.

3. Hydropower stations

a. Hydropower station EPBiH (Jablanica)

Rehabilitation of Unit 5, Unit 6 and 110 kV substation, upgrading of dam instrumentation.

b. Hydropower station EPRS (Trebinje)

Rehabilitation of Unit 1.

4. Thermal Power Stations (environmental component)

a. EPBiH (TPP Tuzla)

Rehabilitation of the Unit 5 electrostatic precipitator.

b. EPBiH (TPP Kakanj)

Completion of the cooling water re-circulation system and rehabilitation of the Unit 7 electrostatic precipitator.

c. EPRS (TPP Gacko)

Reclamation of the Granica ash disposal site.

d. EPRS (TPP Ugljevik)

Introduction of a new system of ash transport and disposal.

5. Distribution

a. EPBiH

Rehabilitation of distribution substation, lines, poles and towers.

b. EPHZHB

Rehabilitation of distribution substation, lines, poles and towers.

c. EPRS

Rehabilitation of distribution substation, lines, poles and towers.

6. Technical Assistance and Training

a. Initial work on facilitating the corporatization including the creation of opening balance sheets and commercialization (including the establishment of financial management and management information systems) of EPBiH, EPHZHB and EPRS through the provision of technical assistance to the staff of EPBiH, EPHZHB and EPRS.

b. Strengthening the capacity of ZEK to enable it to perform the functions assigned to it under the electricity policy statements adopted by the Federation and RS on May 4, 2000 and April 20, 2000, respectively.

c. Establishment of regulatory agencies for the electricity sector through the provision of technical assistance and training to the staff of these agencies.

* * *

The Project is expected to be completed by September 30, 2004.

SCHEDULE 3

Procurement and Consultant's Services

Section I. Procurement of Goods and Works

Part A: General

1. Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of this Section.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods and works

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

(b) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10 million equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract under Parts A.1, B.1, B.2 and C.1 of Schedule 2, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

Consultant's services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Review by the Bank of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Bank for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Bank, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for the employment of consulting firms, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

