

CONFORMED COPY

CREDIT NUMBER 2904 BOS

Development Credit Agreement

(Emergency Public Works and Employment Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 31, 1996

CREDIT NUMBER 2904 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 31, 1996, between BOSNIA AND HERZEGOVINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; 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;

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, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank 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."

(b) The last sentence of Section 3.02 is deleted.

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) "Canton" means an administrative sub-division of the Federation;

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

(c) "FETF" means the Employment and Training Foundation, a legal entity established or to be established under the laws of the Federation and includes any successor thereto acceptable to the Association;

(d) "FETF Administrative and Financial Manual" means the manual to be adopted by the FETF pursuant to the provisions of paragraph B.3 of Schedule 5 to this Agreement, setting out the administrative and financial procedures for the day-to-day operation and administration of the FETF;

(e) "FETF Operational Manual" means the manual to be adopted by the FETF pursuant to the provisions of paragraph B.2 of Schedule 5 to this Agreement, setting out the operational and administrative procedures of the FETF in respect of the preparation, appraisal, processing, approval, financing, implementation and supervision of Sub-projects;

(f) "FETF Subsidiary Financing and Project Implementation Agreement" means the tripartite agreement entered or to be entered into between the Borrower, the Federation and FETF pursuant to the provisions of Section 3.02 of this Agreement;

(g) "Municipality" means an administrative subdivision of the Federation or Republika Srpska, as the case may be, and "Municipalities" means, collectively, more than one such Municipality;

(h) "Project Beneficiary" means a Municipality and any other local public or private entity that has been selected for assistance under the Project;

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

(j) "RETF" means the Employment and Training Foundation, a legal entity established or to be established under the laws of Republika Srpska and includes any successor thereto acceptable to the Association;

(k) "RETF Administrative and Financial Manual" means the manual to be adopted by the RETF pursuant to the provisions of paragraph B.3 of Schedule 5 to this Agreement, setting out the administrative and financial procedures for the day-to-day operation and administration of the RETF;

(l) "RETF Operational Manual" means the manual to be adopted by the RETF pursuant to the provisions of paragraph B.2 of Schedule 5 to this Agreement, setting out the operational and administrative procedures of the RETF in respect of the preparation, appraisal, processing, approval, financing, implementation and supervision of Sub-projects;

(m) "RETF Subsidiary Financing and Project Implementation Agreement" means the tripartite agreements entered or to be entered into between the Borrower, Republika Srpska and RETF pursuant to the provisions of Section 3.02 (b) of this Agreement;

(n) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(o) "Sub-grant" means a grant made or proposed to be made out of the proceeds of the Credit by FETF or RETF under a Sub-grant Agreement, pursuant to the provisions of Part C.1 of Schedule 5 to this Agreement, to finance the carrying out of the corresponding Sub-project; and the term "Sub-grants" means, collectively, more than one Sub-grant;

(p) "Sub-grant Agreement" means the agreement to be entered into between FETF or RETF, as the case may be, and a Project Beneficiary in respect of a Sub-project to be financed by a Sub-grant.

(q) "Sub-project" means any sub-project selected for financing under Part A.1 or Part B.1 of the Project in accordance with the provisions of this Agreement;

(r) "Subsidiary Financing and Project Implementation Agreements" means the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation Agreement; and "Subsidiary Credit" means the portion of the Credit made available to the Federation and Republika Srpska under the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation Agreement, as the case may be; and

(s) "its/their respective part of the Project" means Part A of the Project in case of FETF and Part B of the Project in case of RETF.

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 Special Drawing Rights seven million (SDR 7,000,000).

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

(b) The Borrower may, for the purposes of Part A and Part B of the Project, open and maintain in Dollars separate special deposit accounts in a bank or banks, acceptable to the Association, 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 Accounts shall be made in accordance with the provisions of Schedule 4A and Schedule 4B to this Agreement.

Section 2.03. The Closing Date shall be January 31, 1999 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 the June 30 immediately preceding the accrual date or 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 payment 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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall

repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing September 15, 2006 and ending March 15, 2031. Each installment to and including the installment payable on March 15, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 Dollars for five (5) consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause FETF through the Federation and RETF through Republika Srpska to respectively carry out Part A and Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, managerial and environmental practices, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable FETF and RETF to carry out their respective part of the Project, and shall not take or permit to be taken any action which would prevent or interfere with FETF and RETF carrying out their respective part of the Project.

Section 3.02. (a) The Borrower shall make the proceeds of the Credit available to FETF and RETF, through the Federation and Republika Srpska respectively, pursuant to separate tripartite subsidiary financing and project implementation agreements to be entered into among the Borrower, the Federation and FETF and the Borrower, Republika Srpska and RETF, under terms and conditions which shall have been approved by the Association and which shall, inter alia, include the terms and conditions specified in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights under the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation Agreement in such a manner so as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit and the objectives of FETF and RETF, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the FETF Subsidiary Financing and Project Implementation Agreement or RETF Subsidiary Financing and Project Implementation Agreement, or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services 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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records

and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, who shall be employed by October 31, 1996;

(ii) furnish to the Association, as soon as available, but in any case not later than four (4) months after the end of each such year, 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

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain, 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 or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

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

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

(a) The Federation or FETF or Republika Srpska or RETF shall have failed to perform any of their respective obligations under the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation 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 FETF or Republika Srpska or RETF will be able to perform their respective obligations under the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation Agreement.

(c) The founding documents of FETF or RETF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of FETF or RETF or their ability to carry out their respective part of the Project or to perform any of their respective obligations under the FETF Subsidiary Financing and Project Implementation Agreement and RETF Subsidiary Financing and Project Implementation Agreement.

(d) The Borrower or the Federation or Republika Srpska or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of FETF or RETF or for the suspension of their operations.

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

(a) The event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

(b) Any event specified in paragraph (c) or (d) of Section 5.01 of this Agreement shall occur.

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 FETF has been established in form and substance satisfactory to the Association;

(b) the FETF Subsidiary Financing and Project Implementation Agreement has been executed by the parties thereto; and

(c) initial allocations of the proceeds of the Credit to the Federation Cantons, satisfactory to the Association, shall have been determined on the basis of criteria agreed with the Association.

Section 6.02. The following is specified as an additional matter, 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 Bank, namely, that the FETF Subsidiary Financing and Project Implementation Agreement has been duly executed by the parties thereto and is legally binding upon them in accordance with its terms.

Section 6.03. 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.

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 of the Borrower is designated as 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
Mehmeda Spahe 5
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 (RCA)
82987 (FTCC)
64145 (WUI) or
197688 (TRT)

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/ Sven Alkalaj

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich

Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Sub-projects		100% (net of taxes)
(a) under Part A of the Project	3,260,000	
(b) under Part B of the Project	1,240,000	
(2) Goods and equipment		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) under Part A of the Project	200,000	
(b) under Part B of the Project	120,000	
(3) Consultants' services,		100%
(a) under Part A of the Project	430,000	
(b) under Part B of the Project	180,000	
(4) Training and study tours		100%

(a) under Part A of the Project	60,000	
(b) under Part B of the Project	30,000	
(5) Operating Costs		100%
(a) under Part A of the Project	950,000	
(b) under Part B of the Project	530,000	
TOTAL	7,000,000	

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;

(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 the goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "Operating Costs" means the costs of staff salaries and travel, office utilities and equipment, supplies and materials for the public works department of FETF or RETF, as the case may be, as agreed to by the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent to SDR 700,000, may be made in respect of Categories (1)(a), (2)(a), (3)(a), (4)(a), and (5)(a) on account of payments made for expenditures before that date but after May 15, 1996; and (b) under Categories 1(b), 2(b), 3(b), 4(b), and 5(b) unless (i) evidence, satisfactory to the Association, has been furnished to the Association, by December 31, 1996, confirming that: (A) the RETF has been established in form and substance satisfactory to the Association; (B) the RETF Subsidiary Financing and Project Implementation Agreement has been duly executed by the parties thereto; and (C) the board of trustees of the RETF has been appointed; and (ii) the Association has received an opinion or opinions that the RETF Subsidiary Financing and Project Implementation Agreement has been duly executed by the parties thereto and is legally binding upon them in accordance with its terms.

4. In the event the evidence required under paragraph 3(b)(i) hereof is not furnished by the date specified therein, the Association may, by notice to the Borrower, cancel the amounts allocated to Categories 1(b), 2(b), 3(b), 4(b), and 5(b) specified in the table in paragraph 1 hereof.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) Sub-project works under contracts costing \$100,000 equivalent or less (with the exception of the first 25 contracts under Category 1(a) and the first 15 contracts under Category 1(b)); (b) goods and equipment under contracts costing \$50,000 equivalent or less; (c) employment of consultants under contracts costing less than (i) \$100,000 equivalent in case of firms, and (ii) \$50,000 equivalent in case of individuals, and (d) training, study tours and Operating Costs, each under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in its efforts to help the Federation and Republika Srpska to: (i) create rapid employment for those unemployed or displaced as a result of war; (ii) rehabilitate small scale public infrastructure and clean-up war damaged public property and assets; and (iii)

reinforce the decision-making role and responsibilities of municipality governments in municipal infrastructure project design and management.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Trustee may agree upon from time to time to achieve such objectives.

Part A: Public Works In and Institutional Support to The Federation

1. Carrying out of selected sub-projects for public works such as clearing up of war damages; rehabilitation of forests which have been devastated during the war both for wood production and soil stabilization; cleaning and rehabilitation of surface sewage and drains, ditches and river banks; cleaning up of drainage networks; rehabilitation of rural unpaved roads; rehabilitation of urban parks and gardens; transferring of provisional graves to cemeteries; rehabilitation of public housing; rural roads rehabilitation; rehabilitation of water supply networks; repairing of streets; repairing of urban sewage and city street drains; rehabilitation of public buildings such as schools and clinics; rehabilitation of irrigation networks; and repairing of water supply networks, treatment plants and reservoirs.

2. Strengthening of the public works department of FETF through the provision of: (a) technical assistance to develop its operational procedures, set-up financial controls, develop sub-project eligibility criteria, establish a management information system, and set-up a unit cost database; (b) training, including study trips, for local staff; and (c) operating costs including staff salaries, vehicles, and office equipment for the said public works department.

Part B: Public Works In and Institutional Support to Republika Srpska

1. Carrying out of selected sub-projects for public works such as clearing up of war damages; rehabilitation of forests which have been devastated during the war both for wood production and soil stabilization; cleaning and rehabilitation of surface sewage and drains, ditches and river banks; cleaning up of drainage networks; rehabilitation of rural unpaved roads; rehabilitation of urban parks and gardens; transferring of provisional graves to cemeteries; rehabilitation of public housing; rural roads rehabilitation; rehabilitation of water supply networks; repairing of streets; repairing of urban sewage and city street drains; rehabilitation of public buildings such as schools and clinics; rehabilitation of irrigation networks; and repairing of water supply networks, treatment plants and reservoirs.

2. Strengthening of the public works department of RETF through the provision of: (a) technical assistance to develop its operational procedures, set-up financial controls, develop sub-project eligibility criteria, establish a management information system, and set-up a unit cost database; (b) training, including study trips, for local staff; and (c) operating costs including staff salaries, vehicles, and office equipment for the said public works department.

* * *

The Project is expected to be completed by July 31, 1998.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. Procurement of Small Works

Except as provided in paragraphs 2 and 3 hereof, works shall be procured under contracts awarded under lumpsum fixed price contracts on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works,

including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

2. Direct Contracting

Works estimated to cost less than \$50,000 per contract up to an aggregate of \$1,760,000 equivalent under Part A.1 of the Project and \$500,000 equivalent under Part B.1 of the Project may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$1,120,000 equivalent or less under Part A.1 of the Project and \$320,000 equivalent or less under Part B.1 of the Project in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines, provided that the contractor agency satisfies the following requirements: (i) the agency demonstrates that the works are uniquely suited to its skills and capacities; (ii) the agency demonstrates that it has the ability to account for the funds disbursed to it; (iii) the agency agrees to execute the contract for a fixed price based on completed works; and (iv) the agency agrees to full supervision by the ETF of completed works before the ETF authorizes disbursement.

4. National Shopping

Goods (including office equipment, supplies and materials) and vehicles shall be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 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: (a) each contract for goods, estimated to cost more than \$50,000 equivalent; (b) the first twenty-five contracts for works under Part A of the Project and the first fifteen contracts under Part B of the Project, and thereafter all contracts for works costing more than \$100,000 equivalent, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to (a) contracts for the employment of

consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4A

Special Account A for Part A of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1(a), 2(a), 3(a), 4(a), and 5(a) 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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account A pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account A 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 A has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account A shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 A such amount or amounts as the Borrower shall have requested.

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

(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) (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 A;

(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, less the amount of any outstanding special commitment 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 A 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 A: (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 A (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 A 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 A 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 A.

(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.

SCHEDULE 4B

Special Account B for Part B of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1(b), 2(b), 3(b), 4(b) and 5(b) 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 Projectand 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 \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account B pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account B 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 B has been duly opened, withdrawals of the Authorized Allocation and

subsequent withdrawals to replenish the Special Account B shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 B such amount or amounts as the Borrower shall have requested.

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

(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)(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 B;

(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, less the amount of any outstanding special commitment 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 B 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 B: (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 B (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 B 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 B 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 B.

(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.

SCHEDULE 5

Terms and Conditions of Subsidiary Financing and Project Implementation Agreements

The principal terms and conditions of the Subsidiary Financing and Project Implementation Agreements shall include the following:

Part A: General

1. The Borrower shall onlend the proceeds of the Credit to the Federation and Republika Srpska on the following principal terms and conditions: (i) the Borrower shall onlend to the Federation and the Republika Srpska amounts in Dollars equivalent to the amounts of the Credit allocated respectively to Categories 1(a), 2(a), 3(a), 4(a), and 5(a) and Categories 1(b), 2(b), 3(b), 4(b), and 5(b) in the table specified in paragraph 1 of Schedule 1 to this Agreement; (ii) term of the Subsidiary Credit shall be 35 years, including a 5 year grace period; (iii) the Borrower shall charge the Federation and Republika Srpska a commitment fee at a rate equal to the rate of commitment charge payable under Section 2.04 of this Agreement; (iv) the Borrower shall charge the Federation and Republika Srpska interest on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; (v) the principal amount of the Subsidiary Credit repaid 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 Project, and (vi) in case of the loan to the Federation, the Borrower shall ensure that the Federation and FETF apply the initial allocations of the proceeds of the Credit to the Federation Cantons, determined pursuant to Section 6.01(c) of this Agreement, in a manner satisfactory to the Association.

2. The Borrower shall cause the Federation and Republika Srpska to make available, on a non-reimbursable grant basis, the proceeds of the Subsidiary Credit to FETF and RETF.

3. The Borrower shall cause FETF and RETF to implement their respective part of the Project in accordance with this Schedule in a manner satisfactory to the Association.

4. FETF and RETF shall each:

(a) carry out and otherwise coordinate and supervise the overall implementation of their respective part of the Project;

(b) submit to the Association a monthly progress report on the implementation of its respective part of the Project, of such scope and in such detail as the Association shall reasonably request;

(c) organize and carry out annual review meetings with the Association, and prepare an annual progress report on the implementation of its respective part of the Project, of such scope and in such detail as the Association shall reasonably request, to be reviewed at these meetings. As part of each said review, FETF and RETF shall each prepare a program of action, satisfactory to the Association, to remedy any deficiencies in Project implementation identified during such review; and

(d) promptly after each such review, take all necessary actions required for the implementation of the program of action referred to in paragraph (c) of this

Section.

5. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, FETF and RETF shall each:

(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 its respective part of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with FETF and RETF, as the case may be, on said plan.

6. FETF and RETF shall each:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of its respective part 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 semiannual basis, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (a) above, on the progress achieved in the carrying out of its respective part 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, on a semiannual basis, the report referred to in sub-paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of its respective part 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.

7. FETF and RETF shall each appoint such management staff in their respective public works department as may be required for the effective implementation of their respective part of the Project and deemed satisfactory by the Association.

Part B: Sub-projects

1. FETF and RETF shall each approve sub-projects for financing under Part A.1 and Part B.1 of the Project, respectively, in accordance with the eligibility criteria approved by the Association.

2. FETF and RETF shall each adopt an operational manual setting out the operational procedures, acceptable to the Association, of FETF or RETF, as the case may be, in respect of the screening, appraisal, processing, approval, financing, and supervision of Sub-projects. The FETF Operational Manual and RETF Operational Manual shall, inter alia, include the following provision: (i) types of sub-projects or eligibility criteria shall not be amended without the prior written approval of the Association; (ii) the cost ceiling for an individual Sub-project shall be \$100,000 for the first semester of Project implementation, which may be revised with the prior written approval of the Association; and (iii) the Municipality shall carry out the technical design study for the Sub-project at its own cost.

3. FETF and RETF shall each adopt an Administrative and Financial Manual setting out the administrative and financial procedures, acceptable to the Association, for the day-to-day operation and administration of FETF or RETF, as the case may be.

4. FETF shall, by no later than October 31, 1996, and RETF, by no later than March 31, 1997, each establish and maintain, until completion of its respective part of the Project, a management information system capable of generating detailed reports regarding, inter alia, Sub-project implementation and monitoring data including a unit cost database for Sub-project appraisal and financing. The unit cost prices shall be revised periodically subject to the review and approval of the Association.

Part C: Sub-grants

1. In respect of each Sub-project, FETF and RETF shall each enter into a Sub-grant Agreement, under terms and conditions acceptable to the Borrower and the Association providing for the transfer, on a grant basis, of part of the proceeds of the Subsidiary Credit allocated to the corresponding Sub-project, and the obligation of the parties thereto to carry out their respective obligations and exercise their respective rights for implementing the corresponding Sub-project and achieving its objectives.

2. FETF and RETF shall each exercise their respective rights under each Sub-grant Agreement in such a manner as to protect the interests of the Borrower, FETF and RETF and the Association, and to accomplish the purposes of the Credit and the objectives of the Project, and, except as the Borrower and the Association shall otherwise agree, FETF and RETF shall not assign, amend, abrogate or waive their respective Sub-grant Agreement, or any provision thereof.

3. With respect to the first 25 contracts under Category 1(a) and the first 15 contracts under Category 1(b), no expenditures for goods or services required for a Sub-project shall be eligible for financing out of the proceeds of the Credit unless the Sub-grant for such Sub-project shall have been approved by the Association and such expenditures shall have been made not earlier than ninety (90) days prior to the date on which the Association shall have received the application and information required under paragraph 4 of this part in respect of such Sub-grant.

4. When presenting a Sub-grant to the Association for approval, FETF and RETF shall furnish to the Association an application, in form satisfactory to the Association, together with: (i) a description of the Project Beneficiary and an appraisal of the proposed Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; (ii) the proposed terms and conditions of the Sub-grant; and (iii) such other information as the Association shall reasonably request.

5. Sub-grants shall be made on terms whereby FETF and RETF shall obtain, by written contract with the Project Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Association and FETF and RETF, including, in the case of any Sub-grant, the right to: (a) require the Project Beneficiary to carry out and operate the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records; (b) require that: (i) the goods, works and services to be financed out of the proceeds of the Credit shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Sub-project; (c) inspect, by itself or jointly with representatives of the Association if the Association shall so request, such goods, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents; (d) require that: (i) the Project Beneficiary shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Project Beneficiary to replace or repair such goods; (e) obtain all such information as the Association or FETF and RETF shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Project Beneficiary and to the benefits to be derived from the Sub-project; and (f) suspend or terminate the right of the Project Beneficiary to the use of the proceeds of the Credit upon failure by such Project Beneficiary to perform its obligations under its contract with FETF or RETF, as the case may be.

6. FETF and RETF shall each maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of FETF and RETF responsible for carrying out the Project or any part thereof.

