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CONFIRMED COPY

CREDIT NUMBER 3672 BOS

Development Credit Agreement

(Solid Waste Management Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 12, 2002

CREDIT NUMBER 3672 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 12, 2002, between BOSNIA AND HERZEGOVINA (the Borrower) and 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) the Project will be carried out by the Federation of Bosnia and Herzegovina (the Federation) and Republika Srpska (RS) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to the Federation and RS, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the agreements of even date herewith each between the Association and the Federation and between the Association and RS (the Project Agreements);

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.

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) "BAM" means the Convertible Mark, the currency of the Borrower;
- (b) "Entity" means either the Federation or RS, as the case may be, and Entities means the Federation and RS, collectively;
- (c) "Environmental Management Plan" means the Regional Plan, satisfactory to the Association, adopted by the Borrower describing the environmental

mitigation, monitoring and institutional measures under the Project as referred to in Paragraph 2 of Schedule 1 to the Federation Project Agreement and the RS Project Agreement, respectively;

(d) “Euro” or “€” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty Establishing the European Community, as amended by the Treaty of European Union;

(e) “Federation” means the Federation of Bosnia and Herzegovina, a political subdivision of the Borrower, and includes any successor thereto;

(f) “Federation Project Agreement” means the Project Agreement between the Association and the Federation 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 Project Agreement;

(g) “Federation Subsidiary Finance Agreement” means the Subsidiary Finance Agreement between the Borrower and the Federation, referred to in Section 3.01 (b) of this Agreement, by which the Borrower makes a part of the proceed of the Credit available to the Federation for the carrying out of the Project, as the same may be amended from time to time with the prior approval of the Association, and such term includes all schedules and agreements supplemental to the Federation Subsidiary Finance Agreement;

(h) “FMR” means the financial monitoring report referred to in Section 4.02 of this Agreement;

(i) “Inter-Municipal Board” means a body comprised of representatives of the municipalities of the Borrower participating in the Project and cantons of the Federation sharing the regional landfill site for adopting policies and financing mechanism for their Utilities;

(j) “Participating Utility” means a Participating Federation Utility or a Participating RS Utility (as these terms are defined herein after);

(k) “Participating Utilities” means, collectively, the Participating Federation Utilities and the Participating RS Utilities (as these terms are defined herein after);

(l) “Participating Federation Utilities” means the three Utilities (as the term is defined hereinafter) in the Federation which are to participate in the carrying out of the Project pursuant to the Subsidiary Credit Agreement between the Federation and each such Utility under Section 2.01 (b) of the Federation Project Agreement, including any change in the number of such Utilities that may be made by agreement among the Borrower, the Association and the Federation to participate in the Project;

(m) “PIP” means the Project Implementation Plan of the Borrower adopted by the Federation and RS, satisfactory to the Association, setting out the operational and administrative procedures for the implementation of the Project;

(n) “PIT” means the Project Implementation Team comprised of a qualified Procurement Analyst and Accountant and such other qualified personnel, as necessary, established in the Solid Waste Utility managing the landfill site in RS;

(o) “PMU” means the Project Management Unit comprised of a qualified Procurement Manager, Procurement Analyst, Financial Manager and Accountant and such other qualified personnel, as necessary, established in the Ministry of Physical Planning and Environment of the Federation;

(p) “Participating RS Utility” means the Solid Waste Utility (as the term Utility is defined hereinafter) managing the landfill site in RS which is to participate in the carrying out of the Project pursuant to the Subsidiary Credit Agreement under Section 2.01 (b) of the Project Agreement, including any additional Utilities that may be agreed from time to time among the Borrower, the Association and RS to participate in the Project;

(q) “Project Account” means the account referred to in paragraph 3 of Schedule 1 to each Project Agreement opened and maintained by each Entity for deposit therein of counterpart funds for the Project;

(r) “Project Agreement” means either the Federation Project Agreement or the RS Project Agreement (hereinafter defined), as the case may be, and Project Agreements means said Project Agreements;

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

(t) “RS Project Agreement” means the Project Agreement between the Association and RS 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 Project Agreement;

(u) “RS Subsidiary Finance Agreement” means the Subsidiary Finance Agreement between the Borrower and RS, referred to in Section 3.01 (b) of this Agreement, by which the Borrower makes a part of the Proceed of the Credit available to RS for the carrying out of the Project, as the same may be amended from time to time with the prior approval of the Association, and such term includes all schedules and agreements supplemental to the RS Subsidiary Finance Agreement;

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

(w) “Subsidiary Credit” means the credit provided by each Entity to a Participating Utility under the Subsidiary Credit Agreement (as defined hereinafter);

(x) “Subsidiary Credit Agreement” means the agreement to be entered into between the Federation and each Participating Federation Utility, and between RS and the Solid Waste Utility in RS, including any new RS Utility selected to participate in the Project, pursuant to paragraph (c) of Section 3.01 of this Agreement and referred to in Paragraph (b) of Section 2.01 of the Project Agreements, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Credit Agreement; and

(y) “Utility” means a local body in each Entity responsible for the disposal of municipal waste and management of and operation of the regional landfill site, and Utilities means more than one Utility.

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 fourteen million three hundred thousand Special Drawing Rights (SDR 14,300,000).

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 works, goods, services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be February 29, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 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 semiannual installments payable on each April 15 and October 15 commencing October 15, 2012 and ending April 15, 2037. Each installment to and including the installment payable on April 15, 2022 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 consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more

after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

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

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 Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause the Federation and RS to perform in accordance with the provisions of the respective Project Agreements all the obligations of the Federation and RS therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation and RS to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make available from the proceeds of the Credit: (i) to the Federation an amount equivalent to SDR 7,040,000 under the Federation Subsidiary Finance Agreement, satisfactory to the Association; and (ii) to RS an amount equivalent to SDR 3,520,000, under the RS Subsidiary Finance Agreement, satisfactory to the Association, for relending by each Entity to its Participating Utilities on terms and conditions set forth in paragraph (c) of this Section. 3.01.

(c) Proceeds of the Credit shall be relented by each Entity to its Participating Utilities under a Subsidiary Credit Agreement to be entered into between the Federation

and each Participating Federation Utility and between RS and each Participating RS Utility, under terms and conditions which shall have been approved by the Association, such terms and conditions shall include the following:

- (i) each Entity shall relend to its Participating Utilities under the Subsidiary Credit Agreement, an amount in BAM, the amount of the Credit allocated for the Participating Utility to carry out the Project;
- (ii) the term of relending to each Participating Utility under the Subsidiary Credit Agreement shall be 25 years, including an 8-year grace period;
- (iii) under the Subsidiary Credit Agreements, each Entity shall charge the Participating Utility a commitment charge at a rate equal to the rate payable by the Borrower under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iv) each Entity shall charge the Participating Utilities a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable by the Borrower under Section 2.05 of this Agreement;
- (v) the principal amount of the Subsidiary Credit under each Subsidiary Credit Agreement shall be repayable in BAM; and
- (vi) each Entity shall have the right to require modification in the repayment terms of the Subsidiary Credit in conformity with any changes that may take place in the repayment terms of the Credit in accordance with the provisions of Section 2.07 (b) of this Agreement.

(d) The Borrower shall exercise its rights under the Federation Subsidiary Finance Agreement and the RS Subsidiary Finance Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any of the two Subsidiary Finance Agreements or any provision thereof.

Section 3.02. 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 1 to the Project Agreements.

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, works and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project shall be carried out by the Federation and RS pursuant to Section 2.03 (a) of their respective Project Agreements.

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 statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and separate 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 and those for the Special Account 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 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, including a separate opinion by said auditors as to whether the financial monitoring reports or 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; 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.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall cause to prepare and furnish to the Association a financial monitoring report (FMR), in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

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

(a) Either Entity shall have failed to perform any of its obligations under its respective Project Agreement or Subsidiary Finance 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 either of the Entities will be able to perform its obligations under its respective Project Agreement.

(c) the Federation Subsidiary Finance Agreement or the RS Subsidiary Finance Agreement shall have been amended without prior approval the Association.

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

ARTICLE VI

Effective Date; Termination

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

(a) the Federation Project Agreement and the RS Project Agreement have been executed on behalf of the Association and each Entity, respectively, on terms and conditions satisfactory to the Association;

(b) the Federation Subsidiary Finance Agreement and the RS Subsidiary Finance Agreement have been executed on behalf of the Borrower and each Entity, respectively, on terms and conditions satisfactory to the Association;

(c) a Subsidiary Credit Agreement has been executed on behalf of either of the two Entities at least with one Participating Utility on terms and conditions satisfactory to the Association; and

(d) the Inter-Municipal Board has been established at least for one Participating Federation or RS Utility and its charter shall have been approved by the local government.

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 the Federation Project Agreement and the RS Project Agreement have been duly authorized or ratified by the respective Entity, and is legally binding upon the respective Entity in accordance with its terms;

(b) that the Federation Subsidiary Finance Agreement and the RS Subsidiary Finance Agreement referred to in Section 6.01 (b) of this Agreement have been duly authorized or ratified by the Borrower and the respective Entity and is legally binding upon the Borrower and the respective Entity in accordance with its terms; and

(c) that the Subsidiary Credit Agreement referred to in Section 6.01 (c) of this Agreement has been duly authorized or ratified by the respective Entity and is legally binding upon the Entity and the Utility in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

Section 6.04. The obligations of the Borrower under Article III of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall

terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Treasury of Institutions 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 Treasury of Institutions
of Bosnia and Herzegovina
TRG BiH
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 the city of 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/ Johannes Linn
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works under Parts A, B, C and D	6,320,000	80%
(2) Goods under Parts A, B, C and D	1,900,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), 80% of expenditures for other items procured locally
(3) Engineering/Consultants' Services	1,190,000	100% of foreign expenditures, 80% of local expenditures for consultants domiciled within the territory of the Borrower

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(4) Incremental Operating Costs	1,150,000	80% until January, 2005, 70% thereafter until Project completion
(5) Unallocated	3,740,000	
TOTAL	<u>14,300,000</u>	

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; and

(c) the term “Incremental Operating Costs” means incremental expenses incurred by the PMU, PIT and Utilities on account of salaries, training, office equipment and supplies, computers, relevant software, vehicles, audit, various utility expenses and other miscellaneous costs, as may be agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) for expenditures incurred by a Participating Utility until the Utility concerned has concluded the Subsidiary Credit Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) contracts for goods costing less than \$100,000 equivalent each; (ii) contracts for consulting firms costing less than \$100,000 equivalent each; (iii) contracts for individuals consultants costing less than \$30,000 equivalent each; (i) contracts for works, costing less than \$500,000 equivalent each; and incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) cost effectively improve solid waste services in participating priority areas; (b) increase administrative and technical capacity for solid waste management; (c) improve cost recovery in the sector and encourage private sector involvement; and (d) correct environmental problems and reduce health hazards caused by inadequate waste collection and disposal systems.

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: Waste Management

1. Rehabilitation of existing disposal sites to meet sanitary standards, including upgrading of infrastructure.
2. Permanent closure of wild dump sites in an environmentally sound way and institution of long term environmental monitoring.
3. Establishment of collection infrastructure and support facilities therefore.
4. Establishment of optimal number of transfer stations handling residential, commercial and institutional waste for consolidation to regional landfill sites.

Par B: Institutional Strengthening

1. Support for community activities required for efficient operation of the solid waste system and the establishment of an environmental monitoring program of landfill sites, including training for the sector personnel public awareness and introduction of relevant environmental subjects in education programs.
2. Support for the preparation and adoption of the national business plan by the Borrower for medium-term Solid Waste Management (SWM) for Bosnia and Herzegovina, including: (a) development of financial management capacity for SWM to operate on a commercial basis and measures to be adopted for its ultimate privatization, as appropriate; and (b) training related to disposal, landfill operations and closure and design of future landfill designs.
3. Assistance for activities related to the management of the Project, inter alia, for financial management, preparation of documents for procurement of works and goods and the hiring of consultants to carry out various studies related to the management of the Project, and the funding of initial critical operating costs of the Project.

4. Establishment of the Project Implementation Team (PIT) to manage the Project implementation, provide guidance and support to the local entities related to the Project and ensure observance of the Procurement Guidelines.

Part C: Engineering/Consultant Services

Engineering services for: (a) the feasibility studies, and the financial, environmental and social assessment of the landfill sites; and (b) preparation of the final designs and bidding documents, and provision of support for the bidding procedures for the investments under Parts A and B of the Project.

* * *

The Project is expected to be completed by August 31, 2007.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (1), (2), (3) and (4) 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 670,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to 30,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
 - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association

shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

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

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

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraph 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.