

INTERIM FUND CREDIT NUMBER N003-0 BOS

Interim Fund Development Credit Agreement

(Essential Hospital Services Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION as Administrator of the interim trust fund established with funds contributed by certain members of the International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of the International Development Association

Dated February 6, 1997

INTERIM FUND CREDIT NUMBER N003-0 BOS

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 6, 1997, between BOSNIA AND HERZEGOVINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association, pursuant to Resolution No. IDA 184 (the Interim Fund Resolution of the Board of Governors of the Association, adopted on June 26, 1996).

WHEREAS (A) by the Interim Fund Resolution, the Interim Fund has been established, constituted of the funds contributed by certain members of the Association and administered by the Association acting as Administrator of the Interim Fund, in accordance with the provisions of the Interim Fund Resolution;

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution; 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 term "Association", wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement.

(b) The terms "Development Credit Agreement", "Credit" and "Credit Account", wherever used in the General Conditions, are amended to read "Interim Fund Development Credit Agreement", "Interim Fund Credit" and "Interim Fund Credit Account", respectively.

(c) A new paragraph, numbered 15, is added to Section 2.01 to read as follows:

"15. "Participating Country" means any country that meets the requirements set forth in Section 5(e) of Resolution No. IDA 184 of the Board of Governors of the Association, adopted on June 26, 1996, as determined by the Administrator as of the date on which the Interim Fund Credit was approved pursuant to Section 5(c) of said Resolution; and "Participating Countries" means, collectively, all such countries.

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

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

"Except as the Administrator 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 Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

(f) In Sections 6.02 and 7.01 of the General Conditions, the term "Association" shall also mean the International Development Association acting in its own capacity.

(g) Section 6.03 is modified to read as follows:

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty days; or (b) at any time, the Administrator determines, after consultation with the Borrower, that an amount of the Interim Fund Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Interim Fund Credit; or (c) at any time the Administrator determines, with respect to any contract to be financed out of the proceeds of the Interim Fund Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Interim Fund Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Administrator to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit; or (d) at any time, the Administrator determines that the procurement of any contract to be financed out of the proceeds of the Interim Fund Credit is inconsistent with the procedures set forth or referred to in the Interim Fund Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Interim Fund Credit; or (e) after the Closing Date, an amount of the Interim Fund Credit shall remain unwithdrawn from the Interim Fund Credit Account, the Administrator may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Interim Fund Credit shall be cancelled."

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

(b) "Federation PIU" means the Project Implementation Unit to be established within the Federation MOH pursuant to paragraph 3 of Schedule 5 to this Agreement;

(c) "Federation Special Account" means the special account for the Federation referred to in Section 2.02 (b) of this Agreement;

(d) "Federation Subsidiary Credit Agreement" and "RS Subsidiary Credit Agreement" mean the agreements to be entered into between the Borrower and, respectively, the Federation and Republika Srpska, pursuant to Section 3.02 (a) of this Agreement, as the same agreements may be amended from time to time, and such terms include all schedules supplemental to said agreements, and the term "Subsidiary Credit Agreements" means, collectively, the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement;

(e) "IPH" means diagnostic facilities within the Institute of Public Health of Republika Srpska located in Banja Luka, and includes any successor or successors thereto;

(f) "PFH" means the Public Fund for Health of Republika Srpska, and includes any successor or successors thereto;

(g) "PMAU" means the Procurement Monitoring and Audit Unit of the Borrower established to monitor and audit procurement activities under projects financed, cofinanced and administered by the Association and the International Bank for Reconstruction and Development in the territories of the Borrower;

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

(i) "RS MOH" means the Ministry of Health of Republika Srpska, and includes any successor or successors thereto;

(j) "RS PIU" means the Project Implementation Unit to be established within RS MOH pursuant to paragraph 4 of Schedule 5 to this Agreement;

(k) "RS Special Account" means the special account for Republika Srpska referred to in Section 2.02(b) of this Agreement;

(l) "Special Accounts" means the Federation Special Account and the RS Special Account, collectively; and

(m) "Subsidiary Credit" means the subsidiary credit to be made out of the proceeds of the Credit to the Federation or to Republika Srpska.

## ARTICLE II

### The Interim Fund Credit

Section 2.01. The Administrator agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Interim Fund Development Credit Agreement, an amount in various currencies equivalent to ten million four hundred thousand Special Drawing Rights (SDR 10,400,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two special deposit accounts, the Federation Special Account and the RS Special Account, each in a commercial bank on terms and conditions satisfactory to the Administrator, 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 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 or such later date as the

Administrator shall establish. The Administrator 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 Interim Fund Credit not withdrawn from time to time at a rate to be set by the Administrator 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 Interim Fund Credit Account or canceled; 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 Interim Fund 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 Interim Fund Credit in semiannual installments payable on each April 15 and October 15 commencing April 15, 2007, and ending October 15, 2031. Each installment to and including the installment payable on October 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 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 Administrator 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 Interim Fund Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund 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 Administrator 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 Administrator 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 Administrator on the principal amount of the Interim Fund Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Administrator, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Administrator 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.

## 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:

(a) (i) shall cause Parts A.1, B.1, C.1, D.1 and E.1 of the Project to be carried out by the Federation and shall cause Parts A.2, B.2, C.2, D.2 and E.2 of the Project to be carried out by Republika Srpska, all with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and health practices;

(ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation to carry out Parts A.1, B.1, C.1, D.1 and E.1 of the Project and to enable Republika Srpska to carry out Parts A.2, B.2, C.2, D.2 and E.2 of the Project; and

(iii) shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said parts of the Project by the Federation and Republika Srpska, respectively;

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Administrator shall otherwise agree, the Borrower shall cause the Federation to carry out Parts A.1, B.1, C.1, D.1 and E.1 of the Project and Republika Srpska to carry out Parts A.2, B.2, C.2, D.2 and E.2 of the Project in accordance with the provisions of the Implementation Program set forth in Schedule 5 to this Agreement.

Section 3.02. (a) The Borrower shall on-lend the proceeds of the Interim Fund Credit to the Federation and Republika Srpska for purposes of the Project under separate subsidiary credit agreements to be entered into between the Borrower and the Federation and the Borrower and Republika Srpska in accordance with the provisions of the Implementation Program set forth in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights under the Subsidiary Credit Agreements in such a manner as to protect the interests of the Borrower and the Administrator and to accomplish the purposes of the Interim Fund Credit, and except as the Administrator shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Credit Agreements or any provision thereof.

Section 3.03. Except as the Administrator 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 Interim Fund Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. Without limiting the generality of its obligations under Section II of Schedule 3 to this Agreement, the Borrower shall cause each of the Federation and Republika Srpska to employ, by February 28, 1997, procurement agents under terms of reference satisfactory to the Administrator.

Section 3.05. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, or cause to be prepared, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator 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 Administrator, a plan for the future operation of the Project; and

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

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause each of the Federation and Republika Srpska to maintain 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, the Federation and Republika Srpska responsible for carrying out the Project or any part thereof.

(b) The Borrower shall or shall cause each of the Federation and Republika Srpska to:

- (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 Administrator, who shall be employed by November 30, 1997 on terms and conditions satisfactory to the Administrator;
- (ii) furnish to the Administrator as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of its financial statements for such year as so audited and (B) the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and
- (iii) furnish to the Administrator such other information concerning such records, accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Interim Fund Credit Account were made on the basis of statements of expenditure, the Borrower shall or shall cause each of the Federation and Republika Srpska to:

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund 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 Administrator'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.

Section 4.02. The Borrower shall cause each of the Federation and Republika Srpska to coordinate with the PMAU for purposes of procurement monitoring and audit of their respective parts of the Project.

#### ARTICLE V

##### Remedies of the Association and the Administrator

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

(a) The Federation or Republika Srpska shall have failed to perform any of its respective obligations under the Federation Subsidiary Credit Agreement and RS Subsidiary Credit Agreement.

(b) As a result of events which have occurred after the date of the Interim Fund Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation or Republika Srpska shall be able to perform its respective obligations under the Federation Subsidiary Credit Agreement and RS Subsidiary Credit Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, 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 Administrator to the Borrower.

#### ARTICLE VI

Effective Date; Termination;  
Designation of Administrator

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

(a) the Federation Subsidiary Credit Agreement has been executed with terms and conditions satisfactory to the Administrator;

(b) the Federation PIU has been established with terms of reference and with staffing and other resources satisfactory to the Administrator in accordance with the provisions of paragraph 3 of Schedule 5 to this Agreement;

(c) the detailed list of medical equipment for each cantonal hospital and clinical center, satisfactory to the Administrator, to be procured under Part B.1 of the Project, has been prepared; and

(d) the allocation of amounts for civil works among specific cantonal hospitals and clinical centers, satisfactory to the Administrator, to be rehabilitated under Part A.1 of the Contract, have been prepared.

Section 6.02. The following is 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 Administrator, namely, that the Federation Subsidiary Agreement has been duly executed by the parties thereto and is legally binding 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 Interim Fund Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

Section 6.05. In the event that the Executive Directors of the Association decide to terminate the functions of the Association as administrator of the Interim Fund pursuant to Section 7 of the Interim Fund Resolution, all of the rights and obligations of the Administrator under this Agreement shall be assumed by the Association in accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

#### ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Foreign Trade and Economic Relations 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 Foreign Trade  
and Economic Relations  
Danijela Ozme 7,  
71000 Sarajevo  
Bosnia and Herzegovina

For the Association and the Administrator:

International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Alija Izetbegovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Administrator of the interim trust fund established with funds contributed by certain members of the International Development Association pursuant to Resolution No. IDA 184 of the Board of Governors of the International Development Association

By /s/ Rory O'Sullivan

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 Interim Fund Credit, the allocation of the amounts of the Interim Fund Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works under Parts A.1 and E.1 of the Project	1,300,000	100% (net of taxes)
(2) Goods		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(a) under Parts B.1, C.1, D.1 and E.1	2,980,000	
(b) under Parts B.2, C.2, D.2 and E.2 of the Project	1,390,000	
(3) Consultants' services, training and auditing		100%



(a)	under Parts C.1, and E.1 of the Project	1,160,000	
(b)	under Parts C.2, D.2 and E.2 of the Project	620,000	
(4)	Incremental operating costs		100% through December 31, 1997, 75% through December 31, 1998, and 50% thereafter
(a)	under Parts D.1 and E.1 of the Project	800,000	
(b)	under Parts D.2 and E.2 of the Project	1,110,000	
(5)	Unallocated		
(a)	for Parts A.1, B.1, C.1, D.1 and E.1 of the Project	690,000	
(b)	for Parts B.2, C.2, D.2 and E.2 of the Project	350,000	
	TOTAL	10,400,000	

2. For the purposes of this Schedule:

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

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

(c) the term "incremental operating costs" means the costs incurred by the Federation PIU and RS PIU on account of the Project for staff salaries, office facilities, services, staff travel and consumable office supplies as shall be agreed with the Administrator; and

(d) the term "training" means expenditures incurred in connection with the training activities (other than consultants' services) to be carried out under the Project, including the travel cost and per-diem of the trainees and other expenditures as shall be agreed with the Administrator.

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; (b) under Category (2) (a) unless evidence satisfactory to the Administrator has been furnished to the Administrator that the detailed technical specifications and procurement packages of medical equipment, satisfactory to the Administrator, to be procured under Part B.1 of the Project, have been prepared; and (c) under Categories (2) (b), (3) (b) and (4) (b) unless: (i) evidence satisfactory to the Administrator has been furnished to the Administrator, by April 30, 1997, confirming: (A) that the RS Subsidiary Credit Agreement has been executed with terms and conditions satisfactory to the Administrator; (B) that the RS PIU has been established under terms of reference and with staffing and other resources satisfactory to the Administrator in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement; and (C) that the detailed technical specifications and procurement packages of medical equipment, satisfactory to the Administrator, to be procured under Part B.2 of the Project, have been prepared; and (ii) the Administrator

has received an opinion or opinions that the RS Subsidiary Credit 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) (c) hereof, is not furnished by the date specified in said paragraph (3) (c), the Administrator may, by notice to the Borrower, cancel the amounts allocated to Categories (2) (b), (3) (b) and (4) (b) specified in the table in paragraph 1 hereof or reallocate such amounts to other Categories.

5. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for: (a) expenditures for works and goods under contracts not exceeding \$5,000,000 equivalent each and \$2,000,000 equivalent each, respectively, except for the first three contracts awarded under Schedule 3, Section I, Part B.3 of this Agreement; (b) incremental operating costs, training and auditing expenditures; (c) contracts for employment of consulting firms not exceeding \$100,000 equivalent each; and (d) contracts for employment of individual consultants not exceeding \$50,000 equivalent, each under such terms and conditions as the Administrator shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to support the Borrower to develop a modern, cost effective and fiscally sustainable hospital network which would: (i) strengthen essential hospital services; and (ii) establish and support the initial health financing reforms.

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

#### Part A: Physical Rehabilitation and Reconstruction of Essential Hospital Facilities

1. Rehabilitation and reconstruction of about eight cantonal hospitals and about three clinical centers, performing functions at the level of cantonal hospitals, throughout the Federation.

2. Rehabilitation of IPH of Republika Srpska.

#### Part B: Medical Equipment and Supplies

1. Provision of essential medical supplies and diagnostic and therapeutic equipment to about eight cantonal hospitals and to about three clinical centers, performing functions at the level of cantonal hospitals, throughout the Federation.

2. Provision of essential medical supplies and repair and maintenance of existing equipment to eight hospitals, the Banja Luka clinical center and the IPH.

#### Part C: Upgrading of Clinical Skills and Practices

1. Provision of technical assistance, training and equipment to the Federation for: (i) the adaptation, production and dissemination of diagnostic and therapeutic protocols for essential clinical interventions of known cost effectiveness; and (ii) in-service training for physicians, nurses, midwives, and diagnostic and laboratory technologists.

2. Provision of technical assistance, training and equipment to Republika Srpska for (i) the adaptation, production and dissemination of diagnostic and therapeutic protocols for essential clinical interventions of known cost effectiveness; and (ii) in-service training for physicians, nurses, midwives, and diagnostic and laboratory technologists.

#### Part D: Health Financing Reform and Implementation

1. Provision of technical assistance, training and office equipment for: (i) the development of a new health financing system in the Federation; (ii) institutional support for the implementation of such financing system; and (iii) the development and implementation of a simplified automated management information system at the FHIA and

at about eight cantonal hospitals and about three clinical centers, performing functions at the level of cantonal hospitals, supported under the Project.

2. Provision of technical assistance, training and office equipment for: (i) the development of a new health financing system in Republika Srpska; (ii) institutional support for the implementation of such financing system; and (iii) the development and implementation of an automated management information system at the PFH and at about eight hospitals supported under the Project.

Part E: Project Implementation

1. Establishment and strengthening the capacity of the Federation PIU to oversee and coordinate the implementation of Parts A.1, B.1, C.1 and D.1 of the Project through the provision of equipment, civil works, technical assistance and training.

2. Establishment and strengthening the capacity of the RS PIU to oversee and coordinate the implementation of Parts A.2, B.2, C.2 and D.2 of the Project through the provision of equipment, civil works, technical assistance and training.

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The Project is expected to be completed by December 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Subject to the eligibility restrictions set forth in Section III of this Schedule, 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 and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Procurement Procedures

1. Limited International Bidding

Goods estimated to cost \$5,000,000 equivalent or less per contract, and goods, which the Administrator agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. In addition, the list of suppliers to be invited shall include, inter alia, the suppliers who express interest in response to the General Procurement Notice referred to in paragraph 2.7 of the Guidelines.

2. National Competitive Bidding

Except as provided in paragraph 6 hereof, works estimated to cost \$5,000,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines with the following modifications:

- (i) general prequalification will be carried out through advertising in the local press. The list of prequalified bidders will be updated from time to time as a result of new expression of interest and information submitted by qualified contractors;
- (ii) prequalified bidders will be allowed a minimum of four (4) weeks to submit their bids;
- (iii) bidding documents will follow the formats of the national competitive bidding documents agreed with the Administrator;
- (iv) foreign bidders will be allowed to submit bids;
- (v) bids will be submitted in sealed envelopes, and both mailed and hand-carried bids will be accepted;

- (vi) all bids will be opened at the same time in public;
- (vii) contracts will be awarded to the lowest evaluated bidder; and
- (viii) bidders will not be asked, nor allowed to change the substance of their bids after the bid closing date, and price negotiations with the lowest evaluated bidder will be confined to those cases listed in the Guidelines.

### 3. International Shopping

Goods estimated to cost: (i) \$2,000,000 equivalent or less per contract, up to an aggregate amount not to exceed \$4,730,000 equivalent in respect of the parts of the Project to be carried out by the Federation; and (ii) \$2,000,000 equivalent or less, up to an aggregate amount not to exceed \$1,470,000 equivalent in respect of the parts of the Project to be carried out by Republika Srpska, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines and using standard documentation agreed with the Administrator.

### 4. National Shopping

Goods estimated to cost: (i) \$200,000 equivalent or less per contract, up to an aggregate amount not to exceed \$300,000 equivalent in respect of the parts of the Project to be carried out by the Federation; and (ii) \$200,000 equivalent or less per contract, up to an aggregate amount not to exceed \$210,000 equivalent in respect of the parts of the Project to be carried out by Republika Srpska, may 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.

### 5. Direct Contracting

Goods which are of a proprietary nature: (i) up to an aggregate amount not to exceed \$120,000 equivalent in respect of the parts of the Project to be carried out by the Federation; and (ii) up to an aggregate amount not to exceed \$300,000 equivalent in respect of the parts of the Project to be carried out by Republika Srpska, may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

### 6. Procurement of Small Works

Works estimated to cost: (i) \$1,000,000 equivalent or less per contract, up to an aggregate amount not to exceed \$2,600,000 equivalent in respect of the parts of the Project to be carried out by the Federation; and (ii) \$1,000,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,400,000 equivalent in respect of the parts of the Project to be carried out by Republika Srpska, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) 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 Administrator, 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.

## Part C: Review by the Administrator 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 Administrator 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 Administrator, and with the provisions of said paragraph 1.

### 2. Prior Review

With respect to: (i) each contract to be awarded in accordance with the provisions of Section I, Part B.1 of this Schedule; and (ii) the first three contracts awarded in accordance with the provisions of Section I, Part B.2 of this Schedule, 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 Administrator. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator 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 Administrator 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 Administrator, (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.

## Section III. Eligibility Restriction

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods and works provided by nationals of, and produced in or supplied from, Participating Countries; consequently, nationals of countries that are not Participating Countries and bidders offering goods and works from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.02 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out of the proceeds of the Interim Fund Credit.

## SCHEDULE 4

### Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2)(a), (3)(a) and (4)(a) in case of the Federation Special Account and Categories (2)(b), (3)(b) and (4)(b) in case of the RS Special Account, as 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 Interim Fund 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 \$2,000,000 in the case of the Federation Special Account and an amount equivalent to \$1,000,000 in the case of the RS Special Account, or such other amounts as the Administrator shall establish, to be withdrawn from the Interim Fund Credit Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Administrator has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized

Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit in the respective Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Administrator requests for deposits into the respective Special Account at such intervals as the Administrator shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator 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 Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the respective 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 respective Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Administrator from the Interim Fund 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 respective Special Account, the Borrower shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the respective Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Borrower directly from the Interim Fund 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 Administrator, 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 Administrator pursuant to said Section in respect of the audit of the records and accounts for the respective Special Account;

(c) if, at any time, the Administrator 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 Interim Fund Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment entered into by the Administrator 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 Interim Fund Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for the Project shall follow such procedures as the Administrator shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator shall have determined at any time that any payment out of the respective 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 Administrator, the Borrower shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the respective Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the respective 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 Administrator shall have determined at any time that any amount outstanding in the respective Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

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

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Interim Fund Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 5

##### Implementation Program

For purposes of Sections 3.01 (b) and 3.02 (a) of this Agreement, the Borrower shall enter into the Subsidiary Credit Agreements, which shall include the following terms and conditions:

1. The Borrower shall on-lend the proceeds of the Interim Fund Credit to the Federation and Republika Srpska on the following principal terms and conditions: (a) the Borrower shall on-lend to the Federation an amount in Dollars equivalent to the amount of the Interim Fund Credit allocated to Categories (1), (2)(a), (3)(a) and (4)(a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement and shall on-lend to Republika Srpska an amount in Dollars equivalent to the amount of the Interim Fund Credit allocated to Categories (2)(b), (3)(b) and (4)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; (b) the term of each Subsidiary Credit shall be 35 years, including a 10-year grace period; (c) the Borrower shall charge the Federation and Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement; (d) the Borrower shall charge the Federation and Republika Srpska a service charge on the principal amount of each Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; (e) the principal amount of the Subsidiary Credit 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 Interim Fund Credit Account on account of expenditures for the Project; and (f) the Borrower shall have the right to require modification in the repayment terms of each Subsidiary Credit in conformity with the provisions of Section 2.07 (b) of this Agreement.

2. The Federation shall carry out Parts A.1, B.1, C.1, D.1 and E.1 of the Project and Republika Srpska shall carry out Parts A.2, B.2, C.2, D.2 and E.2 of the Project with due diligence and efficiency and in conformity with appropriate engineering, administrative, financial and health practices, and in accordance with the provisions set forth below.

3. The Federation shall establish and maintain, for purposes of Parts A.1, B.1, C.1, D.1 and E.1 of the Project, the Federation PIU under terms of reference and with staffing and other resources acceptable to the Administrator. The Federation PIU shall be headed by a director and shall have overall responsibility for the management and coordination of said parts of the Project.

4. Republika Srpska shall establish and maintain, for purposes of Parts A.2, B.2, C.2, D.2 and E.2 of the Project, the RS PIU under terms of reference and with staffing and other resources acceptable to the Administrator. The RS PIU shall be headed by a director and shall have overall responsibility for the management and coordination of said parts of the Project.

5. For purposes of ensuring that the procurement of goods and works is carried out in accordance with the procedures stipulated for that purpose:

(a) the Federation, by February 28, 1997, shall employ procurement agents, under terms of reference satisfactory to the Administrator, to assist the Federation in carrying out the procurement of said goods and works under Parts A.1, B.1, C.1, D.1 and E.1 of the Project; and

(b) Republika Srpska shall employ, by February 28, 1997, procurement agents, under terms of reference satisfactory to the Administrator, to assist Republika Srpska in carrying out the procurement of said goods and works under Parts B.2, C.2, D.2 and E.2 of the Project.

6. For purposes of their respective parts of the Project, the Federation and Republika Srpska shall each maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project and the departments or agencies of the Federation and Republika Srpska responsible for carrying out the Project or any part thereof.

7. The Federation and Republika Srpska shall each operate and maintain, or cause to be operated and maintained, any facilities relevant to their respective parts of the Project, and promptly as needed, make or cause to be made, all necessary repairs and renewals thereof.

8. The Federation and Republika Srpska shall, through the Federation PIU and RS PIU, respectively, coordinate with the PMAU for purposes of monitoring and audit of procurement activities for their respective parts of the Project.

9. The Federation and Republika Srpska shall each: (a) by May 31, 1997, employ consultants, under terms of reference satisfactory to the Administrator, to carry out a study on alternatives for the reform of the financing of their respective health sectors; (b) by May 31, 1998, carry out each said study; (c) coordinate on the findings of the respective studies; and (d) furnish to the Administrator, for review and comment, the conclusions and recommendations of the respective studies, and advise the Administrator of the reform measures that the Federation and Republika Srpska intend to take in the financing of their respective health sectors.

10. For purposes of their respective parts of the Project, the Federation and Republika Srpska shall each:

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

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, by April 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above, on the progress achieved in carrying out 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 Administrator, by June 30, 1998, or such later date as the Administrator shall request, the report referred to in paragraph (b) above, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

