

**CONFORMED COPY**

**CREDIT NUMBER 3626 BOS**

# **Development Credit Agreement**

**(Road Management and Safety Project)**

**between**

**BOSNIA AND HERZEGOVINA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 18, 2002**

**CREDIT NUMBER 3626 BOS**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated June 18, 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) Part A of the Project will be carried out by the Federation of Bosnia and Herzegovina (the Federation) with the Borrower's assistance and, as a part of such assistance, the Borrower will make available to the Federation a part of the proceeds of the Credit as provided in this Agreement;

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

(D) Part C of the Project will be carried out jointly by the Federation and Republika Srpska with the Borrower's assistance, and as a part of such assistance, the Borrower will make available to the Federation and Republika Srpska, respectively, a part of the proceeds of the Credit as provided in this Agreement.

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 Project Agreements of even date herewith between the Association and the Federation and the Association and Republika Srpska;

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) to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

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

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

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

Security Council taken under Chapter VII of the Charter of the United Nations.”

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

(a) “BRIC” means the Bosnia and Herzegovina Road Infrastructure Public Corporation established under the Office of the High Representative through an Agreement between the Federation (as hereinafter defined), Republika Srpska (as hereinafter defined) and the Principal Deputy High Representative, dated February 20, 2000, and published in the Official Gazette Number 11, dated March 31, 2000.

(b) “Eligible Categories” means, in respect of the Federation Special Account for Part A of the Project, Categories A(1) through A(5) set forth in the table in Part A.1 of Schedule 1 to this Agreement; and in respect of the Republika Srpska Special Account for Part B of the Project, Categories B(1) through B(5) set forth in said table;

(c) “Eligible Expenditures” means, in respect of the Federation Special Account, the expenditures for goods, works, services and operating costs referred to in Section 2.02 (a) of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account’s respective Eligible Categories; and in respect of the Republika Srpska Special Account, the expenditures for goods, works, services and operating costs referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to said Special Account’s respective Eligible Categories;

(d) “Entity” means either the Federation or Republika Srpska, as the case may be, and “Entities” means the Federation and Republika Srpska, collectively;

(e) “Environmental Management Plan” means the plan, satisfactory to the Association, prepared and adopted by the Borrower describing the environmental mitigation, monitoring and institutional measures under the Project as referred to in paragraph 4 of Schedule 1 of the Federation Project Agreement and Republika Srpska Project Agreement respectively;

(f) “Euro” and “EUR” each mean 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;

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

(h) “Federation Road Directorate” or “FRD” means the Road Directorate of the Federation established through the Law on Roads of the Federation of Bosnia and Herzegovina adopted in December 2001;

(i) “Federation Project Agreement” means the 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;

(j) “Federation Subsidiary Credit Agreement” means the agreement to be entered into

between the Borrower and the Federation pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Federation Subsidiary Credit Agreement, and “Federation Subsidiary Credit” means the credit provided under the Federation Subsidiary Credit Agreement;

(k) “Financial Monitoring Report” means each report prepared in accordance with Section 3.02 (a) of the Federation Project Agreement and Republika Srpska Project Agreement, respectively;

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

(m) “Project Agreement” means either the Federation Project Agreement or the Republika Srpska Project Agreement (hereinafter defined), as the case may be, and “Project Agreements” means said project agreements, collectively;

(n) “Republika Srpska” means Republika Srpska, a political subdivision of the Borrower, and such term includes any successor or successors thereto;

(o) “Republika Srpska Project Agreement” means the agreement between the Association and Republika Srpska 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 Republika Srpska Project Agreement;

(p) “RSRD” means the Road Directorate of Republika Srpska established through the Law on the Roads of Republika Srpska adopted in 1995;

(q) “Republika Srpska Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower and Republika Srpska pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Republika Srpska Subsidiary Credit Agreement and “Republika Srpska Subsidiary Credit” means the credit provided under the Republika Srpska Subsidiary Credit Agreement;

(r) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement; and

(s) “Subsidiary Credit Agreement” means either agreement entered or to be entered into between the Borrower and each Entity pursuant to Section 3.01(b) or (c) of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules, supplemental to each Subsidiary Credit Agreement: “Subsidiary Credit Agreements” means said agreements, collectively; and “Subsidiary Credit” means a credit to be made out of the proceeds of the Credit provided to each Entity under a Subsidiary Credit Agreement.

## **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 this Agreement, an amount in various currencies equivalent to twenty four million two hundred thousand Special Drawing Rights (SDR 24,200,000).

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

(b) The Borrower may, for the purposes of Parts A and B of the Project, open and maintain in Euro a separate special deposit account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2007, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of 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 on April 15, 2012, and ending on October 15, 2036. Each installment to and including the installment payable on October 15, 2021, shall be one and one-fourth percent (1-1/4%) of such principal amount and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Association shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the

review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

Section 2.08. 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 Republika Srpska to perform in accordance with the provisions of the Federation Project Agreement and Republika Srpska Project Agreement all the obligations of the Federation and Republika Srpska, 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 Republika Srpska to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) For the purposes of Part A and C of the Project the Borrower shall enter into a subsidiary credit agreement with the Federation (Federation Subsidiary Credit Agreement) under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to the Federation an amount in Euro equivalent to the

amount of the Credit allocated from time to time to Categories A(1) through A(5) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement;

- (ii) the term of the Federation Subsidiary Credit shall be 35 years, including a 10-year grace period;
- (iii) the Borrower shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Federation Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge the Federation a service charge on the principal amount of the Federation Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;
- (v) the principal amount of the Federation Subsidiary Credit shall be repayable in Euro and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of the Federation expenditures for Part A and C of the Project; and
- (vi) the Borrower shall have the right to require modification in the repayment terms of the Federation Subsidiary Credit in conformity with the provisions of Section 2.07 (b) of this Agreement.

(c) For the purposes of Part B and C of the Project the Borrower shall enter into a subsidiary credit agreement with Republika Srpska (Republika Srpska Subsidiary Credit Agreement) under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Borrower shall relend to Republika Srpska an amount in Euros equivalent to the amount of the Credit allocated from time to time to Categories B(1) through B(5) set forth in the table in paragraph A.1 of Schedule 1 to this Agreement;
- (ii) the term of the Republika Srpska Subsidiary Credit shall be 35 years, including a 10-year grace period;
- (iii) the Borrower shall charge Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Republika Srpska Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge Republika Srpska a service charge on the principal amount of the Republika Srpska Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;
- (v) the principal amount of the subsidiary credit shall be repayable in Euro and shall be the equivalent in Euro (determined as of the date or respective dates of

repayment) of the value of currency or currencies withdrawn from the Credit Account on account of the Republika Srpska expenditures for Part B and C of the Project; and

- (vi) the Borrower shall have the right to require modification in the repayment terms of the subsidiary credit in conformity with the provisions of Section 2.07 (b) of this Agreement.

(d) The Borrower shall exercise its rights under the Federation Subsidiary Credit Agreement and Republika Srpska Subsidiary Credit 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 the Federation Subsidiary Credit Agreement or Republika Srpska Subsidiary Credit Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Project Agreements.

Section 3.03. 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 Parts A and C of the Project shall be carried out by the Federation pursuant to Section 2.03(a) of the Federation Project Agreement and in respect of Parts B and C of the Project shall be carried out by Republika Srpska pursuant to Section 2.03(a) of the Republika Srpska Project Agreement.

## **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 including those for the Special Accounts for each fiscal year audited, in



accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including 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; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

## **ARTICLE V**

### **Remedies of the Association**

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

- (a) either Entity shall have failed to perform any of its obligations under its respective Project Agreement or Subsidiary Credit Agreement; and
- (b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that either Entity shall be able to perform its obligations under its respective Project Agreement or Subsidiary Credit Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (a) 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) a Project Agreement has been executed on behalf of the Association and an Entity on terms and conditions satisfactory to the Association;
- (b) for the Entity referred to in paragraph (a) of this Section 6.01:
  - (i) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and said Entity on terms and conditions satisfactory to the Association;

- (ii) the auditor referred to in Section 3.01(b) of the Project Agreement has been appointed; and
- (iii) the initial Project cost amount of said Entity, as specified in paragraph 5 of Schedule 1 to the Project Agreement, has been deposited into the Project account.

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 Project Agreement has been duly authorized or ratified by the Entity concerned, and is legally binding upon the said Entity in accordance with its terms; and

(b) that the Subsidiary Credit Agreement referred to in Section 6.01 (b)(i) has been duly authorized or ratified by and is legally binding upon the Borrower and said Entity 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 Articles 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 Foreign Trade and Economic Relations and the Minister of Treasury of Institutions of the Borrower are severally designated as representatives of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Treasury of Institutions  
of Bosnia and Herzegovina  
TrgBiH  
71000 Sarajevo  
Bosnia and Herzegovina

Facsimile:

387-33-205345

For the Association:

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

Cable address:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

1(202) 477-6391

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

BOSNIA AND HERZEGOVINA

By /s/ Azra Hadziahmetovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Ingram

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
A. <u>Parts A and C of the Project (the Federation)</u>		

(1)	Goods:		
	(a) under Part A of the Project	390,000	100% of foreign expenditures and 80% of local expenditures procured locally
	(b) under Part C of the Project	20,000	67% of foreign expenditures and 53% of local expenditures procured locally
(2)	Works	14,270,000	70%
(3)	Consultants' services, including training:		
	(a) under Part A of the Project	1,120,000	88%
	(b) under Part C of the Project	210,000	59%
(4)	Technical services	80,000	70%
(5)	Operating costs	40,000	88%
	<b>SUBTOTAL</b>	<b>16,130,000</b>	

**B. Parts B and C of the Project (Republika Srpska)**

(1)	Goods:		
	(a) under Part B of the Project	200,000	100% of foreign expenditures and 80% of local expenditures procured locally
	(b) under Part C of the Project	20,000	33% of foreign expenditures and 27% of local expenditures procured locally
(2)	Works	6,420,000	70%
(3)	Consultants' services, including training:		
	(a) under Part B of the Project	1,250,000	88%
	(b) under Part C of the Project	100,000	29%

(4)	Technical services	40,000	70%
(5)	Operating costs	40,000	88%
	SUBTOTAL	8,070,000	
	TOTAL	<u>24,200,000</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; provided however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “technical services” means the services provided by the media for disseminating a traffic safety campaign; and

(d) the term “operating costs” means auditing services.

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; and (b) under the Categories allocated to Part A or Part B of the Project unless: (i) a Project Agreement between the Association and the Entity responsible for implementing Part A or Part B of the Project, as the case may be, has been executed; (ii) a Subsidiary Credit Agreement between the Borrower and such Entity has been executed with terms and conditions satisfactory to the Association; (iii) the auditor referred to in Section 3.01(b) of the Project Agreements has been appointed; (iv) the initial amount referred to in paragraph 5 of Schedule 1 to the Project Agreements has been deposited into the Project account; and (v) an opinion has been furnished to the Association stating that such Project Agreement and Subsidiary Credit Agreement have been duly authorized or ratified by the parties thereto and is legally binding upon them in accordance with its terms.

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 individual consultants costing less than \$50,000 equivalent each; (iv) contracts for works, except the first two contracts, costing less than \$500,000 equivalent each; and (v) 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 objective of the Project is to increase efficiency and safety of road transport in the territory

of the Borrower.

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: The Federation

1. Road rehabilitation and safety improvements

Rehabilitation and maintenance of about 280 km of priority road sections in the Federation.

2. Institutional strengthening

Strengthening the capacity of FRD, through: (a) provision of services and training to: (i) establish road and bridge databank; (ii) improve quality control procedures for civil road works; (iii) carry out competitive procurement bidding procedures; (iv) use modern road maintenance technologies; (v) improve its financial management systems; (vi) carry out environmental assessment and monitoring work; and (vii) create road safety databank; and conduct road safety awareness campaigns; and (b) provision of office equipment and supplies, vehicles and road survey equipments, necessary to carry out the Project activities.

Part B: Republika Srpska

1. Road maintenance, rehabilitation and safety improvements

Rehabilitation and maintenance of about 290 km of priority road sections in Republika Srpska.

2. Institutional strengthening

Strengthening the capacity of RSRD, through: (a) provision of services and training to: (i) establish road and bridge databank; (ii) establish procedures for road works supervision; (iii) carry out economic analysis of the road sector and road management; (iv) carry out pavement condition surveys; (v) establish procedures for carrying out procurement; (vi) establish units to carry out road safety and environmental management; and (vii) create road safety databank; and (viii) conduct road safety awareness campaigns; and (b) provision of office equipment and supplies, necessary to carry out the Project activities.

Part C: BRIC

Institutional strengthening

Strengthening the capacity of BRIC, through: (a) provision of consultants' services to: (i) establish an improved and uniform road and bridge design, maintenance and construction standards for Bosnia and Herzegovina; (ii) evaluate private sector proposals for investments in road concessions; and (iii) coordinate road administration and management at a national as well as international level; (b) provision of training; and (c) provision of office equipment and supplies and vehicles.

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The Project is expected to be completed by December 31, 2006.

## SCHEDULE 3

### Special Accounts

1. For the purposes of this Schedule:

the term "Authorized Allocation" means: (i) in respect of the Federation Special Account for Part A of the Project, an amount equivalent to 2,000,000 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 1,000,000 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 1,800,000; (i) in respect of the Republika Srpska Special Account for Part B of the Project, an amount equivalent to 1,500,000 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 750,000 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 1,200,000.

2. Payments out of the Special Accounts 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 Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts 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 Accounts 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 Accounts such amount or amounts as the Borrower shall have requested.

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

(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 Accounts;

(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 for the respective Special Accounts, 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 Accounts 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 Accounts (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 Accounts 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

