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CREDIT NUMBER 4197 BOS

Energy Community of South East Europe Program

Financing Agreement

(ECSEE Project - Bosnia and Herzegovina Component)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 21, 2006

CREDIT NUMBER 4197 BOS

FINANCING AGREEMENT

AGREEMENT dated August 21, 2006, between BOSNIA and HERZEGOVINA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty-five million one hundred thousand Special Drawing Rights (SDR 25,100,000) (“Credit”) to assist in financing Parts A, B and C of the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section VI of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Credit Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are March 15 and September 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Euro.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause: (a) Part A of the Project to be carried out by the Federation, through EPBiH, (b) Part B of the Project to be carried out by the Federation, through EPHZHB, (c) Part C of the Project to be carried out by Republika Srpska, through EPRS, and (d) Part D of the Project to be carried out, on the one hand, by the Federation, through EPBiH and EPHZHB for their respective portions of said Part D, and, on the other hand, by Republika Srpska, through EPRS, for EPRS' portion of said Part D, in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Events of Suspension consist of the following:
- (a) The Federation, EPBiH, or EPHZHB has failed to perform any of their respective obligations under the Federation/EPBiH/EPHZHB Project Agreement or either of the Subsidiary Credit Agreements to which any of them is a party;
 - (b) The Charter of EPBiH or EPHZHB has been amended, suspended, abrogated, repealed or waived, or the Recipient or the Federation has enacted new legislation or issued new directives, so as to affect materially and adversely the ability of EPBiH or EPHZHB to perform any of their respective obligations under the Federation/EPBiH/EPHZHB Project Agreement;
 - (c) 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 the Federation, EPBiH, or EPHZHB shall be able to perform their respective obligations under the Federation/EPBiH/EPHZHB Project Agreement or either of the Subsidiary Credit Agreements to which any of them is a party;
 - (d) RS or EPRS shall have failed to perform any of their respective obligations under the RS/EPRS Project Agreement or the RS/EPRS Subsidiary Credit Agreement;
 - (e) The Charter of EPRS has been amended, suspended, abrogated, repealed or waived, or the Recipient or RS has enacted new legislation or issued

new directives, so as to affect materially and adversely the ability of EPRS to perform any of its obligations under the RS/EPRS Project Agreement; and

- (f) 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 RS or EPRS shall be able to perform any of their respective obligations under the RS/EPRS Project Agreement or the RS/EPRS Subsidiary Credit Agreement.

4.02. The Additional Events of Acceleration consist of the following:

- (a) Any event specified in paragraphs (a) and (d) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient; and
- (b) Any event specified in paragraphs (b) and (e) of Section 4.01 of this Agreement occurs.

4.03 The Co-financing Deadline for the effectiveness of the Co-financing Agreements is June 30, 2007, or such later date or dates as the Association has established by notice to the Recipient.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) A Project Agreement has been executed on behalf of the Association and an Entity, together with the relevant Electroprivreda(s), on terms and conditions satisfactory to the Association; and
- (b) For the Entity referred to in paragraph (a) of this Section 5.01, a Subsidiary Credit Agreement(s) has (have) been executed on behalf of the Recipient, the Entity and the Electroprivreda(s) concerned, on terms and conditions satisfactory to the Association.

5.02. The Additional Legal Matters consist of the following:

- (a) The Electroprivreda(s) referred to in paragraphs (a) and (b) of Section 5.01 is a (are) legal entity(-ies) duly established pursuant to its (their) Charter and validly existing under the laws of the Recipient and is (are) fully empowered and duly authorized to enter into the Project Agreement and the Subsidiary Credit Agreement(s) referred to in said paragraphs and to assume and perform the obligations thereunder;

- (b) The Project Agreement referred to in paragraph (a) of Section 5.01 has been duly authorized or ratified by the Entity and the Electroprivreda(s) concerned and is legally binding on said Entity and the Electroprivreda(s) in accordance with its terms; and
 - (c) The Subsidiary Credit Agreement(s) referred to in paragraph (b) of Section 5.01 has (have) been duly authorized or ratified by the Recipient and the Entity and the Electroprivreda(s) concerned and is (are) legally binding upon the Recipient and said Entity and the Electroprivreda(s) in accordance with its (their) respective terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister of Finance and Treasury of Bosnia and Herzegovina.

6.02. The Recipient's Address is:

Trg BiH 1
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:

(387-33) 471-822

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

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

BOSNIA AND HERZEGOVINA

By /s/ Ljerka Maric

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dirk Reinermann

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to facilitate the Recipient's participation in the Energy Community of South East Europe, through investments to: (i) improve dam safety; (ii) reduce adverse environmental impacts at thermal power stations; (iii) replace ageing existing facilities and equipment at hydropower and thermal power stations; (iv) rehabilitate distribution systems and introduce distribution Supervisory Control and Data Acquisition (SCADA) systems; (v) establish a market operation system; (vi) provide hardware and software to improve the financial management information systems of the Elektroprivredas; and (vii) through technical assistance to facilitate project implementation, and determine the best way to reduce sulfur dioxide and nitrogen oxide emissions at a power plant.

The Project consists of the following parts:

Part A: EPBiH

1. Environmental Upgrades

Investment in environmental upgrades: (a) TPP Kakanj – reconstruction of the electrostatic precipitator for Unit 5, reconstruction of facilities for waste water treatment, cultivation of the slag and ash waste dump, and rehabilitation of the equipment for environmental monitoring; and (b) TPP Tuzla – replacement of the slag and ash depositing system, and replacement of the coal deposit system and extension of water treatment.

2. Financial Management Information System

Provision of hardware and software to improve the financial management information system of EPBiH, and assistance in implementation.

3. Technical Assistance for Implementation of IDA-financed Components

Provision of technical assistance to the staff of the EPBiH PIU for implementation activities related to the IDA-financed components, assistance in procurement and supervision, and procurement training; and studies to develop the design for reduction of sulfur dioxide and nitrogen oxide emissions at TPP Kakanj.

4. Technical Assistance for Dam Safety Components

Provision of technical assistance to the staff of the EPBiH PIU for: (i) studies to confirm the design of the rehabilitation measures, help the PIU prepare the bidding documents for the dam safety components, assist in the procurement process and

evaluation of bids, and monitor Project implementation; and (ii) the review and evaluation of dam operation and maintenance procedures, including a review of existing dam safety plans, and assistance in upgrading these as may be necessary.

Part B: EPHZHB

1. Financial Management Information System

Provision of hardware and software to improve the financial management information system of EPHZHB, and assistance in implementation.

2. Technical Assistance for Dam Safety Components

Provision of technical assistance to the staff of the EPHZHB PIU for: (i) studies to confirm the design of the rehabilitation measures, help the PIU prepare the bidding documents for the dam safety components, assist in the procurement process and evaluation of bids, and monitor Project implementation; (ii) the review and evaluation of dam operation and maintenance procedures, including a review of existing dam safety plans, and assistance in upgrading these as may be necessary; and (iii) procurement training.

Part C: EPRS

1. Environmental Upgrades

Investment in environmental upgrades: (i) TPP Ugljevik – rehabilitation of the waste water treatment system, and rehabilitation of the air and water monitoring system; and (ii) TPP Gacko – rehabilitation of the waste water treatment system; and replacement of the ash and slag transportation system.

2. Equipment Upgrades

Investment in equipment upgrades: (i) TPP Ugljevik – replacement of monitoring and automatic control system with digital control system; replacement of water cooling system; and replacement of the 0.4 kV and 6 kV plant for its own electricity consumption; and (ii) TPP Gacko – reconstruction of the 0.4 kV plant.

3. Financial Management Information System

Provision of hardware and software to improve the financial management information system of EPRS, and assistance in implementation.

4. Technical Assistance for Implementation of IDA-financed Components

Provision of technical assistance to the staff of the EPRS PIU for implementation activities related to the IDA-financed components, assistance in procurement and supervision, and procurement training.

5. Technical Assistance for Dam Safety Components

Provision of technical assistance to the staff of the EPRS PIU for: (i) studies to confirm the design of the rehabilitation measures, help the PIU prepare the bidding documents for the dam safety components, assist in the procurement process and evaluation of bids, and monitor Project implementation; and (ii) the review and evaluation of dam operation and maintenance procedures, including a review of existing dam safety plans, and assistance in upgrading these as may be necessary.

Part D: Project Activities Financed by Co-financiers

1. HPP Supporting Equipment

(a) HPP Supporting Equipment (EPBiH)

Investment in rehabilitation, replacement or enlargement of supporting equipment:

- (i) HPP Grabovica – reconstruction of 220 kV switchgear; reconstruction of 35 kV facilities; rehabilitation and modernization of dam monitoring systems;
- (ii) HPP Salakovac – reconstruction of 220 kV switchgear; reconstruction of 35 kV facilities; rehabilitation and modernization of dam monitoring systems; and
- (iii) HPP Jablanica – replacement of primary equipment for the 35/0.4 Brana transformer station and the 35/0.4 entry building transformer station.

(b) HPP Supporting Equipment (EPHZHB)

Investment in rehabilitation, replacement or enlargement of supporting equipment:

- (i) HPP Capljina – 35 kV switchgear replacement; replacement of 220 kV voltage measuring and current measuring transformers and surge arresters; replacement of 220 kV oil cables; and excitation system replacement; and

- (ii) HPP Rama – 220 kV transmission substation enlargement; and rehabilitation of one turbine, generator and block transformer unit.

(c) HPP Supporting Equipment (EPRS)

Investment in rehabilitation, replacement or enlargement of supporting equipment:

- (i) HPP Visegrad – replacement of 400 kV voltage measuring and current measuring transformers; oil regulation system rehabilitation; and introduction of monitoring, automatization and remote control systems for three 105 MW generating sets and other high voltage equipment;
- (ii) HPP Bocac – reconstruction and rehabilitation of the 110 kV plant; and replacement of UPS, excitation systems, turbine regulation for the 2x55 MW generating sets, water cooling system and the plant control system.

2. HPP Works

(a) HPP Works (EPBiH)

Financing of civil works:

- (i) HPP Grabovica – repairs to address dam leakages;
- (ii) HPP Salakovac - repairs to address dam leakages; and
- (iii) HPP Jablanica – installation of monitoring system and rehabilitation of the “Kukovi” landslide.

(b) HPP Works (EPHZHB)

Financing of civil works at HPP Rama, consisting of rehabilitation of dam reinforced concrete facing and dam grout curtain.

(c) HPP Works (EPRS)

Financing of civil works:

- (i) HPP Trebinje – repairs to address dam leakages;

- (ii) HPP Visegrad – repairs to address dam leakages; and
- (iii) HPP Bocac – augmenting of spillway capacity.

3. Distribution Systems (EPBiH, EPHZHB and EPRS)

Rehabilitation and construction of distribution lines, transformers and substations, purchase of meters and equipment for installation.

4. Distribution SCADA (EPBiH, EPHZHB and EPRS)

Supply and installation of distribution Supervisory Control and Data Acquisition systems (SCADAs), including the design and installation of the corresponding software and hardware for each SCADA system, and the installation of all necessary additional telecommunication facilities required for the operation of the distribution system components of the SCADA.

5. Independent System Operator

Establishment of a market operation system for the Independent System Operator, including the purchase and installation of related hardware and software.

6. Other Technical Assistance

Provision of technical assistance required for the implementation of Project activities under Part D of the Project, with the exception only of technical assistance related to dam safety under Parts A.4, B.2 and C.5.

SCHEDULE 2

Project Execution

Section I. Institutional Arrangements

The Recipient shall cause the Entities to carry out the Project in accordance with the following coordination mechanisms:

1. Parts A and B of the Project shall be carried out by the Federation, through EPBiH and EPHZHB, respectively, Part C of the Project shall be carried out by Republika Srpska, through EPRS, and Part D of the Project shall be carried out, on the one hand, by the Federation, through EPBiH and EPHZHB for their respective portions of said Part D, and, on the other hand, by Republika Srpska, through EPRS, for EPRS' portion of said Part D.

2. EPBiH and EPHZHB, on the one hand, and EPRS, on the other hand, shall be responsible for the overall implementation and management of the Entities' Respective Parts of the Project, including environmental and social safeguards management, and financial management.

3. In connection with the Project, the PIUs, established within EPBiH and EPHZHB, on the one hand, and EPRS, on the other hand, as the case may be, shall be responsible for:

- (a) Day-to-day management and coordination of activities;
- (b) Monitoring and evaluation;
- (c) Procurement;
- (d) Financial management and audits; and

(e) Such other duties and responsibilities as may be assigned to them under the Project Implementation Manual from time to time.

Section II. Implementation Covenants

1. The Recipient shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to maintain the PIUs at all times during Project implementation, with terms of reference and resources satisfactory to the Association, and with competent staff in adequate numbers.

2. The Recipient shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be:

- (i) to implement the Project Implementation Manual, the EMPs and the Financial Management Action Plan in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein respectively set forth; and
- (ii) not to amend or waive, or permit to be amended or waived the Project Implementation Manual, the EMPs or the Financial Management Action Plan or any provision of any one thereof, except with the prior written approval of the Association.

3. Should any of the technical assistance undertaken pursuant to Parts A.3, A.4, B.2, C.4 and C.5 of the Project result in recommendations agreed among the Association, the Recipient, the relevant Entity(-ies) and the relevant Electroprivreda(s) that significant and complex remedial works are necessary for a high-hazard dam, then the Recipient shall and shall cause the relevant Entity(-ies) and the relevant Electroprivreda(s) to undertake an independent review of the design and construction activities prior to the commencement of any such works.

Section III. Subsidiary Credit Agreements

1. To facilitate the carrying out of Part A of the Project, the Recipient shall relend a part of the proceeds of the Credit amounting to Euro equivalent to eleven million one hundred eighty thousand Special Drawing Rights (SDR 11,180,000) to the Federation and the Federation shall relend said proceeds of the Credit to EPBiH under a subsidiary credit agreement to be entered into among the Recipient, the Federation and EPBiH, under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the Sub-Credit shall be repaid by the EPBiH to the Federation in Euro in equal semi-annual installments over twenty years, including a grace period of five years;
- (ii) the principal amount of the Subsidiary Credit shall be repaid by the Federation to the Recipient in Euro in accordance with the same terms as those provided under Sections 2.05 and 2.06 of this Agreement and shall be the equivalent in SDRs (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Financing Account

on account of the Federation/EPBiH Subsidiary Credit Agreement;

- (iii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iv) the Recipient shall charge the Federation a commitment charge on the Unwithdrawn Subsidiary Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (v) the Federation shall charge EPBiH a commitment charge on the Unwithdrawn Sub-Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (vi) the Recipient shall charge the Federation interest at a rate equal to the rate payable under Section 2.04 of this Agreement on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time; and
- (vii) the Federation shall charge EPBiH interest at a rate equal to EURIBOR plus three-quarters of one percent (0.75%) on the principal amount of the Sub-Credit withdrawn and outstanding from time to time. For the purposes of this sub-paragraph, the term "EURIBOR" means the Frankfurt interbank offered rate for six-month deposits in Euros.

2. To facilitate the carrying out of Part B of the Project, the Recipient shall relend a part of the proceeds of the Credit amounting to Euro equivalent to six hundred thousand Special Drawing Rights (SDR 600,000) to the Federation and the Federation shall relend said proceeds of the Credit to EPHZHB under a subsidiary credit agreement to be entered into among the Recipient, the Federation and EPHZHB, under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the Sub-Credit shall be repaid by EPHZHB to the Federation in Euro in equal semi-annual installments over twenty years, including a grace period of five years;
- (ii) the principal amount of the Subsidiary Credit shall be repaid by the Federation to the Recipient in Euro in accordance with the same terms as those provided under Sections 2.05 and 2.06 of this Agreement and shall be the equivalent in SDRs (determined as of the date or respective dates of repayment) of the value of

currency or currencies withdrawn from the Financing Account on account of the Federation/EPHZHB Subsidiary Credit Agreement;

- (iii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iv) the Recipient shall charge the Federation a commitment charge on the Unwithdrawn Subsidiary Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (v) the Federation shall charge EPHZHB a commitment charge on the Unwithdrawn Sub-Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (vi) the Recipient shall charge the Federation interest at a rate equal to the rate payable under Section 2.04 of this Agreement on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time; and
- (vii) the Federation shall charge EPHZHB interest at a rate equal to EURIBOR plus three-quarters of one percent (0.75%) on the principal amount of the Sub-Credit withdrawn and outstanding from time to time. For the purposes of this sub-paragraph, the term "EURIBOR" means the Frankfurt interbank offered rate for six-month deposits in Euros.

3. To facilitate the carrying out of Part C of the Project, the Recipient shall relend a part of the proceeds of the Credit amounting to Euro equivalent to thirteen million three hundred twenty thousand Special Drawing Rights (SDR 13,320,000) to Republika Srpska and Republika Srpska shall relend said proceeds of the Credit to EPRS under a subsidiary credit agreement to be entered into among the Recipient, Republika Srpska and EPRS, under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the principal amount of the Sub-Credit shall be repaid by EPRS to Republika Srpska in Euro in equal semi-annual installments over twenty years, including a grace period of five years;
- (ii) the principal amount of the Subsidiary Credit shall be repaid by Republika Srpska to the Recipient in Euro in accordance with the same terms as those provided under Sections 2.05 and 2.06 of

this Agreement and shall be the equivalent in SDRs (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Financing Account on account of the RS/EPRS Subsidiary Credit Agreement;

- (iii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iv) the Recipient shall charge Republika Srpska a commitment charge on the Unwithdrawn Subsidiary Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (v) Republika Srpska shall charge EPRS a commitment charge on the Unwithdrawn Sub-Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of this Agreement;
- (vi) the Recipient shall charge Republika Srpska interest at a rate equal to the rate payable under Section 2.04 of this Agreement on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time; and
- (vii) Republika Srpska shall charge EPRS interest at a rate equal to EURIBOR plus three-quarters of one percent (0.75%) on the principal amount of the Sub-Credit withdrawn and outstanding from time to time. For the purposes of this sub-paragraph, the term "EURIBOR" means the Frankfurt interbank offered rate for six-month deposits in Euros.

4. The Recipient shall exercise its rights under the Subsidiary Credit Agreements in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any of the Subsidiary Credit Agreements or any of their respective provisions.

Section IV. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) The Recipient shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to monitor and evaluate the progress of the respective Project Implementing Entity's part of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover

the period of one (1) calendar quarter, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall cause each of the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to:

- (i) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about November 15, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the respective Project Implementing Entity's part of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the respective Project Implementing Entity's part of the Project and the achievement of the objectives thereof during the period following such date; and
- (ii) review with the Association, by December 31, 2008, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain and shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section IV, the Recipient shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for its Respective Part of the Project covering such quarter, in form and substance satisfactory to the Association.
3. The Recipient shall and shall cause the Entities, through EPBiH and EPHZHB, respectively, and through EPRS, as the case may be, to have the Project Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient or such other period as agreed by

the Association. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section V. Procurement

A. General

1. **Goods and Services (Other Than Consultants' Services).** All goods and services (other than consultants' services) required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Schedule.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Schedule.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods

International Competitive Bidding. Goods and services (other than consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

C. Particular Methods of Procurement of Consultants' Services

Quality- and Cost-based Selection. Consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

D. Review by the Association of Procurement Decisions

All contracts shall be subject to the Association's Prior Review.

Section VI. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Credit in accordance with the provisions of Article II of the General Conditions and of this Section and such additional

instructions as the Association may specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Credit (“Category”), the allocations of the amounts of the Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods (including associated services)		
(a) Part A.1 of the Project	9,630,000	85.55%
(b) Part A.2 of the Project	770,000	100%
(c) Part B.1 of the Project	420,000	100%
(d) Part C.1 of the Project	4,180,000	85.55%
(e) Part C.2 of the Project	7,410,000	85.55%
(f) Part C.3 of the Project	900,000	100%
(2) Consultants’ services		
(a) Part A.3 of the Project	720,000	100%
(b) Part A.4 of the Project	60,000	100%
(c) Part B.2 of the Project	180,000	100%
(d) Part C.4 of the Project	360,000	100%
(e) Part C.5 of the Project	<u>470,000</u>	100%
TOTAL AMOUNT	<u>25,100,000</u>	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section VI, no withdrawals shall be made:

- (a) For payments made prior to the date of this Agreement; or
- (b) Under Categories allocated to Parts A, B or C of the Project unless:
 - (i) A Project Agreement between the Association and the Entity responsible for implementing Parts A and B, or Part C of the Project, as the case may be, has been executed, on terms and conditions satisfactory to the Association;

- (ii) (A) Subsidiary Credit Agreement(s) between the Recipient and such Entity has (have) been executed, on terms and conditions satisfactory to the Association; and
- (iii) An opinion/opinions has/have been furnished to the Association stating that such Project Agreement and Subsidiary Credit Agreement(s) have been duly authorized or ratified by the parties thereto and are legally binding upon them in accordance with their respective terms.

2. The Closing Date is December 31, 2010.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit Repayable (expressed as a percentage)*
On each March 15 and September 15:	
commencing September 15, 2016 to and including March 15, 2026	5%

* The percentage represents the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Definitions

1. “Category” means a category set forth in the table in Section VI of Schedule 2 to this Agreement.
2. “Co-financiers” means, collectively:
 - (i) European Bank for Reconstruction and Development (“EBRD”);
 - (ii) European Investment Bank (“EIB”); and
 - (iii) Kreditanstalt für Wiederaufbau (“KfW”);
and “Co-financier” means any of them individually.
3. “Co-financing Agreements” means, collectively, the EBRD Co-financing Agreement, the EIB Co-financing Agreement and the KfW Co-financing Agreement (as these expressions are defined hereafter).
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
5. “EBRD Co-financing” means an amount equivalent to \$66,980,000 to be provided by EBRD to assist in financing a portion of Part D of the Project.
6. “EBRD Co-financing Agreement” means the agreement, dated February 1, 2006, entered into between the Recipient and EBRD providing for the EBRD Co-financing.
7. “EIB Co-financing” means an amount equivalent to \$115,900,000 to be provided by EIB to assist in financing a portion of Part D of the Project.
8. “EIB Co-financing Agreement” means the agreement to be entered into between the Recipient and EIB providing for the EIB Co-financing.
9. “Electroprivredas” means, collectively, EPBiH, EPHZHB and EPRS.
10. “Entity” means the Federation or Republika Srpska (as these expressions are hereafter defined), as the case may be, and “Entities” refers to the Federation and Republika Srpska collectively.
11. “Environmental Management Plans” or “EMPs” means, collectively, the environmental management plans prepared by the Recipient and satisfactory to the Association:

- (i) dated January, 2006 in respect of TPP Ugljevik;
- (ii) dated February, 2006 in respect of TPP Gacko;
- (iii) dated February, 2006 in respect of HPP Bocac;
- (iv) dated March, 2006 in respect of HPP Capljina;
- (v) dated March, 2006 in respect of HPP Trebinje;
- (vi) dated March, 2006 in respect of HPP Visegrad;
- (vii) dated March, 2006 in respect of TPP Kakanj;
- (viii) dated March, 2006 in respect of HPP Jablanica, Salakovac and Grabovica; and
- (ix) dated March, 2006 in respect of TPP Tuzla;

in each case describing the environmental issues, mitigation, monitoring and institutional measures for the related investments, as the same may be amended and supplemented from time to time with the Association's prior written approval.

- 12. "EPBiH" means Elektroprivreda Bosne i Hercegovine (Elektroprivreda Bosnia and Herzegovina), a legal entity established pursuant to its Charter and existing under the laws of the Federation, and includes any successor or successors thereto acceptable to the Association.
- 13. "EPBiH PIU" means the Project Implementation Unit referred to in paragraph 4 in Schedule 1 of the Federation/EPBiH/EPHZHB Project Agreement.
- 14. "EPHZHB" means Elektroprivreda Hrvatske zajednice Herceg-Bosne (Elektroprivreda of Croatian Community of Herzeg-Bosnia), a legal entity established pursuant to its Charter and existing under the laws of the Federation, and includes any successor or successors thereto acceptable to the Association.
- 15. "EPHZHB PIU" means the Project Implementation Unit referred to in paragraph 4 in Schedule 1 of the Federation/EPBiH/EPHZHB Project Agreement.
- 16. "EPRS" means Elektroprivreda Republike Srpske (Elektroprivreda Republika Srpska), a legal entity established pursuant to its Charter and existing under the laws of RS, and includes any successor or successors thereto acceptable to the Association.

17. “EPRS PIU” means the Project Implementation Unit referred to in paragraph 4 in Schedule 1 of the RS/EPRS Project Agreement.
18. “Federation” means the Federation of Bosnia and Herzegovina, a political subdivision of the Recipient, and includes any successor or successors thereto.
19. “Federation/EPBiH/EPHZHB Project Agreement” means the agreement among the Association, on the one hand, and the Federation, EPBiH, and EPHZHB, on the other hand, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation/EPBiH/EPHZHB Project Agreement.
20. “Federation/EPBiH Subsidiary Credit Agreement” means the agreement to be entered into between the Recipient and the Federation/EPBiH, referred to in paragraph 1 of Section III of Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation/EPBiH Subsidiary Agreement.
21. “Federation/EPHZHB Subsidiary Credit Agreement” means the agreement to be entered into between the Recipient and the Federation/EPHZB, referred to in paragraph 2 of Section III of Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation/EPHZHB Subsidiary Agreement.
22. “Financial Management Action Plan” means the joint financial management action plan, dated April 20, 2006, for the Elektroprivredas, as the same may be amended and supplemented from time to time with the Association’s prior written approval.
23. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
24. “HPP” means hydropower plant.
25. “Independent System Operator” means an operator responsible for coordinating the operation of the transmission network on the territory of Bosnia and Herzegovina and ensuring stability, by fulfilling the functions ascribed to it in the Independent System Operator Law and the Transmission Company Law respectively adopted by the Parliament of Bosnia and Herzegovina on July 16, 2004 and published in the Official Gazette of Bosnia and Herzegovina on July 29, 2004.
26. “KfW Co-financing” means amounts aggregating equivalent to \$44,890,000 to be provided by KfW to assist in financing a portion of Part D of the Project.

27. “KfW Co-financing Agreement” means, collectively, the two agreements to be entered into between the Recipient and KfW providing for the KfW Co-financing.
28. “PIUs” means, collectively, the EPBiH PIU, the EPHZHB PIU and the EPRS PIU.
29. “Power Sector Restructuring Action Plans” means, collectively, the Restructuring Action Plan for the Federation power sector approved by the Federation Government on May 19, 2005, and the Restructuring Action Plan for the Republika Srpska power sector approved by the RS Parliament on July 30, 2003.
30. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
31. “Procurement Plan” means the Recipient’s procurement plan for Parts A, B, C and D of the Project, dated April 17, 2006 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
32. “Project Agreement” means either the Federation/EPBiH/EPHZHB Project Agreement or the RS/EPRS Project Agreement (as hereafter defined), as the case may be, and “Project Agreements” means said Project Agreements, collectively.
33. “Project Implementing Entity” means any of the Federation, EPBiH and EPHZHB, on the one hand, and RS (as hereafter defined) and EPRS, on the other hand, as the case may be, and “Project Implementing Entities” means the Federation, EPBiH, EPHZHB, RS and EPRS, collectively.
34. “Project Implementation Manual” means the manual, dated April 17, 2006, including the Procurement Plan, the EMPs and the Terms of Reference for the IDA-financed technical assistance components of the Project, referred to in paragraph 3 of Section II of Schedule 2 to this Agreement, prepared by the Recipient and satisfactory to the Association, setting out the operational and administrative responsibilities and procedures for the implementation of Parts A, B, C and D of the Project, including the functions and responsibilities of the Eelectroprivredas and the PIUs, as the same may be amended from time to time with the Association’s prior written approval.
35. “Republika Srpska” or “RS” means Republika Srpska, a political subdivision of the Recipient, and includes any successor or successors thereto.

36. “RS/EPRS Project Agreement” means the agreement among the Association, on the one hand, and RS and EPRS, on the other hand, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS/EPRS Project Agreement.
37. “RS/EPRS Subsidiary Credit Agreement” means the agreement to be entered into between the Recipient and the RS, referred to in paragraph 2 of Section III of Schedule 2 to this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to each Subsidiary Agreement.
38. “Subsidiary Credit Agreement” means the Federation/EPBiH Subsidiary Credit Agreement, the Federation/EPHZHB Subsidiary Credit Agreement and the RS/EPRS Subsidiary Credit Agreement, as the case may be, and the term “Subsidiary Credit Agreements” means said agreements collectively.
39. “Subsidiary Credit” means the credit to be made by the Recipient to an Entity out of the proceeds of the Financing under a Subsidiary Credit Agreement, and the term “Subsidiary Credits” means said credits collectively.
40. “Sub-Credit” means the credit to be made by an Entity to an Electroprivreda out of the proceeds of a Subsidiary Credit under a Subsidiary Credit Agreement, and the term “Sub-Credits” means said credits collectively.
41. “TPP” means thermal power plant.
42. “Unwithdrawn Subsidiary Credit Balance” means the amount of the Subsidiary Credit remaining unwithdrawn from time to time.
43. “Unwithdrawn Sub-Credit Balance” means the amount of the Sub-Credit remaining unwithdrawn from time to time.