

CONFORMED COPY

INTERIM FUND CREDIT NUMBER N001-0 BOS

Interim Fund Development Credit Agreement

(Emergency Industrial Restart Project - Including a Political Risk Guarantee Facility)

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 N001-0 BOS

INTERIM FUND DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 6, 1997, between BOSNIA AND HERZEGOVINA (the Borrower or BH) 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 1 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

(C) the Administrator relying on the Borrower's said commitment has agreed, on the basis, inter alia, of the foregoing, to make available the Interim Fund Credit to the Borrower for Part A of the Project upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Administrator and IGA (the Project Agreement) and to provide such further assistance to the Borrower for Part B of the Project by extending the Interim Fund Credit in two tranches as hereinafter provided;

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 in Schedule 2 to this Agreement (the General Conditions) constitute an integral part of this Agreement.

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

(a) "Additional Escrow Account" means the account referred to in paragraph 3 of Part A of Schedule 3 to this Agreement.

(b) "Additional Escrow Amounts" means the amounts generated as interest and other earnings from the deposits in the Escrow Account and includes interest and other earnings generated from the deposits in the Additional Escrow Account.

(c) "Agency Agreement" means the agreement referred to in Section 2.01 (b) (i) of the Project Agreement.

(d) "Agent Bank" means the agent bank of IGA referred to in Section 2.01 (b) (i) of the Project Agreement and includes any successor thereto or assignee thereof acceptable to the Borrower and the Administrator.

(e) "Available Amount" means the amount equal to the amount of the Revolving GF Amounts on the First GF Closing Date.

(f) "Buyer" means a natural or juridical person domiciled or registered in BH to whom Input Goods are provided by the Suppliers.

(g) "Charter" means the founding charter, articles of incorporation and by-laws or other similar instrument of IGA registered with the BH High Court and includes the Borrower's Decree No. 173 dated September 23, 1996, establishing IGA.

(h) "Committed GF Amounts" means the sum of the Maximum Amount of Guarantee (as such term is defined in the General Conditions of Guarantee included in the Standard Form of Guarantee Contracts) under the Guarantee Contracts outstanding at any date.

(i) "Cooperation Agreements" means the agreements entered into between the Borrower and the Federation and the Borrower and Republika Srpska pursuant to paragraph 6 of Schedule 3 to this Agreement; and "Cooperation Agreement" means either one of the said agreements.

(j) "Covered Risks" means the risks specified in Part A.1 of the Project, as each of these risks is defined in the General Conditions of Guarantee included in the Standard Form of Guarantee Contract and covered by each Guarantee Contract and includes such other similar risks as may be agreed upon by the Administrator.

(k) "Critical Imports" means the critical imports provided under Part B of the Project.

(l) "DEM" means the lawful currency of the Federal Republic of Germany.

(m) "Escrow Account" means the account referred to in Section 2.02(b) of this Agreement.

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

(o) "First GF Closing Date" means the date specified in paragraph 2 of Part B of Schedule 3 to this Agreement.

(p) "Foreign Exchange and Trade Policies" means the Borrower's foreign exchange and trade policies specified in the Development Credit Agreement, dated September 6, 1996 between the Borrower and the Association in respect of the Transition Assistance Credit (CR. No. 2914 BOS).

(q) "Guarantee Contract" means any of the contracts referred to in Section 2.01(b)(ii) of the Project Agreement.

(r) "Guarantee Facility" means the Guarantee Facility provided under Part A.1

of the Project.

(s) "Guarantee Holder" means a natural or juridical person, domiciled or registered outside BH, who, having the risk of loss associated with the financing of the Input Goods, has been issued a Guarantee Contract by IGA in accordance with procedures set forth in paragraphs (a) through (e) of Schedule 2 to the Project Agreement.

(t) "Input Goods" means the goods and/or services provided to a Buyer by a Supplier for the purpose of producing Output Goods or for the purpose of enhancing the Buyer's production capacity.

(u) "Investment Guarantee Agency" or "IGA" means the legal entity established and operating, under the laws and regulations of the Borrower, pursuant to the Charter, and includes any successor or successors thereto acceptable to the Administrator.

(v) "Loss" means the amount denominated in DEM, payable to the Guarantee Holder upon occurrence of any of the Covered Risks in accordance with the terms and conditions of the Guarantee Contract with such Guarantee Holder.

(w) "MOF" means the Borrower's Ministry of Finance and includes any successor or successors thereto.

(x) "Operations Manual" means IGA's Operations Manual, dated October 12, 1996, as approved by the Borrower and the Administrator, which sets out the operating policies and procedures of IGA.

(y) "Output Goods" means goods produced by a Buyer in the territory or territories of BH using the Input Goods.

(z) "Payment" means any payment made to a Guarantee Holder by the Agent Bank on account of a Loss.

(aa) "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.

(bb) "Positive List" means the list or lists of goods agreed or to be agreed upon by the Borrower and the Administrator as specified in Section 3.03(a)(iv) and paragraph 2(a)(iv) of Part C of Schedule 3 to this Agreement.

(cc) "Revolving GF Amounts" means the Unpaid GF Amounts that are retained in the Escrow Account following the expiry or termination of Guarantee Contracts and, before the First GF Closing Date, used on a revolving basis for the purpose of providing new guarantees under the Guarantee Facility pursuant to paragraph 3 of Part B of Schedule 3 to this Agreement.

(dd) "RS" means Republika Srpska, a political subdivision of the Borrower, and includes any successor or successors thereto.

(ee) "Second GF Closing Date" means the date 180 days following the date on which the last outstanding Guarantee Contract issued under the Guarantee Facility has expired or terminated in accordance with its terms.

(ff) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986).

(gg) "Standard Form of Guarantee Contract" means IGA's Standard Form of Guarantee Contract including the General Conditions of Guarantee, dated October 12, 1996, as approved by the Borrower and the Administrator, which contains all the standard terms and conditions to be included in the Guarantee Contracts.

(hh) "Supplier" means a natural or juridical person domiciled or registered outside BH who provides the Input Goods to a Buyer.

(ii) "Unpaid GF Amounts" means the Committed GF Amounts that remain unpaid at the expiry or termination of the Guarantee Contracts covered thereby.

(jj) "Unwithdrawn Credit Amount" means the amount of the Interim Fund Credit

remaining unwithdrawn in the Interim Fund Credit Account after the First GF Closing Date.

(kk) "War or Civil Disturbance" means acts of war (whether declared or undeclared), revolution, insurrection, civil war or civil strife of a lesser degree, on the territory of BH, where such acts are undertaken with the primary intent of achieving a political objective. Acts undertaken to further labor, student or other specific interests and acts of terrorism, kidnapping or similar acts directed against the guarantee holder shall not qualify for coverage as civil disturbance.

(ll) "Withdrawn Credit Amounts" means the amounts withdrawn from the Interim Fund Credit Account and deposited in the Escrow Account, from time to time, for the purpose of providing guarantees under the Guarantee Facility.

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

Section 2.02. (a) The amount of the Interim Fund Credit may be withdrawn from the Interim Fund Credit Account for the purposes of and in accordance with the provisions of Part B of Schedule 3 to this Agreement.

(b) The Borrower shall, through IGA, for the purposes of Part A.1 of the Project, open and maintain in DEM an escrow account in the Agent 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 Escrow Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) Any Unwithdrawn Credit Amount may be withdrawn for the purposes of and in accordance with the provisions of Section 3.03 of this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, 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 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 Interim Fund Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment and service charges shall be payable semi-annually on April 15 and October 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semi-annual 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 the Administrator 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 (5) 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 Federal Republic of Germany is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. (a) The General Director of IGA, or one of his/her deputies, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02(a) of this Agreement and Article V of the General Conditions.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts IGA with responsibility for the preparation of withdrawal applications under the Interim Fund Credit and for the collection of the documents and other evidence to be furnished to the Administrator in support of such applications.

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 1 to this Agreement, and, to this end, shall: (a) carry out Part B of the Project, through MOF, with due diligence and efficiency and in conformity with appropriate financial and economic management practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause IGA to perform in accordance with the provisions of the Project Agreement all the obligations of IGA therein set forth, shall take or cause to be taken all actions, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable IGA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance by IGA and with the fulfillment of the objectives of the Project.

Section 3.02. The Borrower shall take all measures necessary on its part to ensure that IGA shall exercise its rights and comply with its obligations under the Agency Agreement and the Guarantee Contracts in such manner as to protect the interests of the Borrower, the Administrator and IGA and to accomplish the purposes of the Interim Fund Credit.

Section 3.03. The Borrower shall, after the First GF Closing Date, be entitled to withdraw the Unwithdrawn Credit Amount for the purposes of financing Critical Imports, subject to the following provisions:

(a) No withdrawal of the Unwithdrawn Credit Amount shall be made unless the Administrator is satisfied (i) after an exchange of views as described in Section 4.01 of this Agreement based on evidence satisfactory to the Administrator, with the progress achieved by the Borrower in the implementation of its Foreign Exchange and Trade Policies; (ii) that claims pursuant to guarantees under the Guarantee Facility have not exceeded one million DEM at any time; (iii) that there has been no suspension of the Borrower's right to make withdrawals from the Interim Fund Credit Account pursuant to Section 6.02 of the General Conditions at any time for reasons other than War or Civil Disturbance; and (iv) that a positive list of goods to be financed by the Unwithdrawn Credit Amount has been furnished by the Borrower and approved by the Administrator;

(b) if, after the exchange of views pursuant to Section 4.01 of this Agreement, the Administrator shall have given notice to the Borrower that the progress achieved by the Borrower in the implementation of its Foreign Exchange and Trade Policies is not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress satisfactory to the Administrator, then the Administrator may, by notice to the Borrower, cancel the Unwithdrawn Credit Amount or any part thereof;

(c) if the Administrator shall have determined at any time that the Unwithdrawn Credit Amount withdrawn under this Section has been used to make a payment for an expenditure on goods not included in the Positive List, the Borrower shall, promptly upon notice from the Administrator refund such amount to the Administrator. Amounts refunded to the Administrator upon such request shall be credited to the Interim Fund Credit Account for cancellation; and

(d) except as the Administrator shall otherwise agree, procurement of the goods shall be governed by the provisions of Schedule 4 to this Agreement.

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory 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, on or about November 15, 1998, 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 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 December 31, 1998, or such later date as the Administrator 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 Administrator's views on the matter.

Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the expiry of the Guaranty Facility or such later date as may be agreed for this purpose between the Borrower and the Administrator, a plan designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.06. The Borrower shall coordinate with the PMAU for purposes of procurement monitoring and audit of the Project.

ARTICLE IV

Particular Covenants in Respect of Part B of the Project

Section 4.01. (a) The Borrower and the Administrator shall from time to time, at the request of either party, exchange views on the implementation by the Borrower of its Foreign Exchange and Trade Policies.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Administrator for its review and comment a report on the status of implementation of its Foreign Exchange and Trade Policies, in such detail as the Administrator shall reasonably request.

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) IGA shall have failed to perform any of its obligations under the Project Agreement;

(b) IGA or the Agent Bank shall have failed to perform any of their respective obligations under the Agency Agreement;

(c) any of the parties to the Cooperation Agreements shall not have complied with any of the provisions under their respective agreement;

(d) 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 IGA will be able to perform its obligations under the Project Agreement or IGA and the Agent Bank will be able to perform their respective obligations under the Agency Agreement;

(e) the occurrence of War or Civil Disturbance;

(f) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of IGA or for the suspension of its operations;

(g) any provision of the Charter shall have been amended, suspended, abrogated, terminated or waived without the prior written consent of the Administrator;

(h) any material or substantial provision of the Operations Manual shall have been amended without the prior written consent of the Administrator;

(i) any provision of the Standard Form of Guarantee Contract shall have been amended without the prior written consent of the Administrator;

(j) any provision of the Agency Agreement shall have been amended, assigned, suspended, abrogated, terminated or waived without the prior written consent of the Administrator;

(k) the Agent Bank shall have made a Payment to a Guarantee Holder on behalf of IGA with the funds deposited by the Administrator into the Escrow Account for that purpose; or

(l) the Borrower shall have introduced a material reversal of its Foreign Exchange and Trade Policies.

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

(a) the event specified in paragraphs (a), (b) or (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Administrator to the Borrower; and

(b) any of the events specified in paragraphs (f), (g), (h), (i), (j), (k) or (l) of Section 5.01 of this Agreement shall occur.

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 Agency Agreement has been executed and delivered on behalf of IGA and the Agent Bank; and

(b) at least one of the Cooperation Agreements has been entered into between the parties thereto in accordance with paragraph 6 of Part A of Schedule 3 to this Agreement.

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 Administrator:

(a) that the Project Agreement has been duly authorized or ratified by IGA and is legally binding upon IGA in accordance with its terms;

(b) that the Cooperation Agreement, entered into pursuant to Section 6.01(b) of this Agreement, has been duly authorized or ratified by the parties thereto and is legally binding upon them in accordance with its terms.

(c) that the Agency Agreement has been duly authorized or ratified by IGA and the Agent Bank and is legally binding upon IGA and the Agent Bank in accordance with its terms;

(d) that the Guarantee Contracts, when executed and delivered by the respective parties thereto based on the Standard Form of Guarantee Contract, will be legally valid and binding upon the respective parties thereto in accordance with their respective terms; and

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 and IV 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. Except as provided in Section 2.09(a) of this Agreement, 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

Description of the Project

The objective of the Project is to assist BH and its industrial and commercial enterprises restart viable parts of industry and production by: (i) attracting foreign private finance for working capital and short to medium-term investments in respect of the production of goods; and (ii) providing foreign exchange for the purchase of critical imports for industry, in the territories of the Borrower.

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: Guarantee Facility and Institutional Strengthening

1. Provision of guarantees on account of Buyers against the following political and war risks: (a) Inability to Convert and Transfer Currency; (b) Expropriation; (c) Seizure of Goods; Prevention of Sale or Prevention of Export; (d) War or Civil Disturbance; (e) Cancellation of Licenses and Restrictions on Import and Export; (f) retroactive Imposition or Increase of Import or Export Taxes; (g) Embargo; (h) Interference in the Carriage of Goods; and (i) Diversion of Voyage.

2. Provision of information and brokerage services to help industrial and commercial enterprises in Bosnia and Herzegovina transact business with foreign partners.

3. Strengthening of IGA through the provision of goods, services, and operating costs including salaries of IGA staff.

Part B: Critical Imports

Reconstruction and development of industry through the provision of critical imports to BH industrial enterprises.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 2

Modifications of General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

(a) The term "Association", wherever used in the General Conditions, except as otherwise provided herein, 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) Section 4.01 is modified to read:

"Except as the Borrower and the Administrator shall otherwise agree, withdrawals from the Interim Fund Credit Account shall be made in the currency of the Escrow Account specified in Section 2.02(b) of the Interim Fund Development Credit Agreement.";

(f) Section 5.01 is modified to read:

"The Borrower shall be entitled to withdraw the proceeds of the Interim Fund Credit from the Interim Fund Credit Account in accordance with the provisions of the Interim Fund Development Credit Agreement and of these General Conditions. 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.";

(g) At the end of Section 6.01, following the words "Section 5.02" the words "or in respect of which a Guarantee Contract (as such term is defined in the Interim Fund Development Credit Agreement) has been issued and remains outstanding" are added;

(h) In Section 6.02, at the end of the first phrase which precedes sub-paragraph (a), ending with the word "Account", the words "with respect to any amount of the Interim Fund Credit which has not been committed under a Guarantee Contract (as such term is defined in the Interim Fund Development Credit Agreement)" are added;

(i) 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;

(j) 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 Interim Fund 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 canceled.";

(k) Section 9.06 (c) is modified to read:

"(c) Not later than six months after the expiry of the Guaranty Facility or such later date as may be agreed for this purpose between the Borrower and the Administrator, the Borrower shall prepare and furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request, on the implementation of the Foreign Exchange and Trade Policies, the performance by the Borrower and the Administrator of their respective obligations under the Interim Fund Development Credit Agreement and the accomplishment of the purposes of the Interim Fund Credit."; and

(l) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

SCHEDULE 3

Withdrawals and Escrow Account

Part A: General

1. The Escrow Account shall be in the form of an interest bearing trust account for the purposes of the Project.
2. The Committed GF Amounts shall be used exclusively to make Payments in accordance with the provisions of Part B of this Schedule. The Revolving GF Amounts shall be used exclusively to finance Critical Imports or a new guarantee facility established by the Borrower or IGA subject to the terms and conditions and in accordance with the procedures specified in Part C of this Schedule.
3. All Additional Escrow Amounts shall be deposited and kept separately in an additional interest bearing trust account in the form of an escrow with the Agent Bank on terms and conditions satisfactory to the Administrator.
4. The Additional Escrow Amounts shall be used exclusively for the purposes of the Project as specified in Part D of this Schedule.
5. The Committed GF Amounts and the Additional Escrow Amounts may, pending utilization as specified in paragraphs 2 and 4 hereof, be used for investments for which prior written approval has been obtained from the Administrator.
6. Notwithstanding any other provision of this Agreement, no deposits shall be made

in the Escrow Account in respect of any Guarantee Contract issued on account of any enterprise located in the Federation or RS unless: (a) in respect of enterprises located in the Federation, a Cooperation Agreement has been entered into between the Borrower and the Federation, (b) in respect of enterprises located in RS, a Cooperation Agreement has been entered into between the Borrower and RS, on terms and conditions satisfactory to the Administrator, whereunder the Federation and RS shall respectively have, inter alia, undertaken to: (i) implement the Foreign Exchange and Trade Policies of the Borrower, (ii) refrain from interfering with transactions covered by IGA, (iii) accept liability to the Borrower for any Loss that each might cause, (iv) enable IGA to carry out its operations in accordance with the Operations Manual, and (v) agree to share between themselves the goods imported under Part B of the Project; and (c) evidence, satisfactory to the Administrator has been furnished to the Administrator, in respect of the execution and validity of the respective Cooperation Agreements.

7. The Borrower shall:

(a) have the Escrow Account and the Additional Escrow Account 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;

(b) furnish to the Administrator 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 Administrator shall have reasonably requested; and

(c) furnish to the Administrator such other information concerning the Escrow Account and the Additional Escrow Account and the audit thereof as the Administrator shall have reasonably requested.

Part B: Guarantee Facility

1. After the Administrator has received evidence satisfactory to it that the Escrow Account has been duly opened, withdrawals of amounts from the Interim Fund Credit Account for deposit in the Escrow Account shall be made as follows:

(a) The Agent Bank, acting on behalf of IGA, shall furnish to the Administrator, upon receipt of a Guarantee Contract and the payment of the guarantee fee payable thereunder, either a request for a deposit of an amount to cover the initial maximum amount guaranteed thereunder if there are no Revolving GF Amounts available, or a request for a deposit of the balance amount required to cover the initial maximum amount guaranteed thereunder if there are insufficient Revolving GF Amounts available. On the basis of such request, the Administrator shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit in the Escrow Account such amount as the Agent Bank shall have requested.

(b) For each Payment made by the Agent Bank, on behalf of IGA, out of the Escrow Account and/or Additional Escrow Account in accordance with the terms of the Agency Agreement, the Borrower shall cause IGA, at such time as the Administrator shall reasonably request, to furnish to the Administrator such documents and other evidence showing that such Payment was made exclusively on account of a Loss.

(c) (i) If the Administrator shall have determined at any time that any disbursement out of the Escrow Account: (i) was made for other than making a Payment; 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) refund to the Administrator an amount equal to the amount of such Payment or the portion thereof not so eligible or justified.

(ii) If the Administrator shall have determined at any time that any amount outstanding in the Escrow Account will not be required to cover further Payments, the Borrower shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

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

- (iv) Refunds to the Administrator made pursuant to sub-paragraphs (c)(i), (ii), and (iii) of this paragraph 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.

2. No withdrawals from the Interim Fund Credit Account for deposit in the Escrow Account shall be made after December 31, 1999, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

3. Unpaid GF Amounts shall be retained in the Escrow Account and, before the First GF Closing Date, shall be used on a revolving basis for the purpose of providing new guarantees under the Guarantee Facility.

Part C: Financing Critical Imports and/or New Guarantee Facility

1. Subject to the provisions of paragraphs 2 and 3 of this Part, the Borrower shall, for the purposes of financing: (i) Critical Imports, and/or, (ii) if deemed to be justified by the Administrator under the circumstances existing at the time, and (iii) a new guarantee facility established by the Borrower or IGA, be entitled to obtain the release of the Available Amount after the First GF Closing Date and the balance remaining in the Escrow Account after the Second GF Closing Date.

2. (a) No release of the Available Amount or balance thereof shall be made from the Escrow Account unless the Administrator is satisfied: (i) after an exchange of views as described in Section 4.01 of this Agreement based on evidence satisfactory to the Administrator, with the progress achieved by the Borrower in the implementation of its Foreign Exchange and Trade Policies; (ii) claims pursuant to guarantees under the Guarantee Facility have not exceeded one million DEM at any time; (iii) there has been no suspension of the Borrower's right to make withdrawals from the Interim Fund Credit Account pursuant to Section 6.02 of the General Conditions at any time for reasons other than War or Civil Disturbance, and, if the release is intended to finance Critical Imports; and (iv) a positive list of goods to be financed by the Available Amount or balance thereof has been furnished by the Borrower and approved by the Administrator;

(b) if, after the exchange of views pursuant to Section 4.01 of this Agreement, the Administrator shall have given notice to the Borrower that the progress achieved by the Borrower in the implementation of its Foreign Exchange and Trade Policies is not satisfactory and, within ninety (90) days after such notice, the Borrower shall not have achieved progress satisfactory to the Administrator, then the Administrator may, by notice to the Borrower, require the Available Amount after the First GF Closing Date or the balance remaining in the Escrow Account after the Second GF Closing Date to be refunded to the Interim Fund Credit Account for cancellation;

(c) if the Administrator shall have determined at any time that the Available Amount or balance thereof released under this Section has been used to make a payment for an expenditure on goods not included in the Positive List, the Borrower shall, promptly upon notice from the Administrator refund such amount to the Administrator. Amounts refunded to the Administrator upon such request shall be credited to the Interim Fund Credit Account for cancellation;

(d) in case of Critical Imports, except as the Administrator shall otherwise agree, procurement of the goods shall be governed by the provisions of Schedule 4 to this Agreement; and

(e) in case of the new guarantee facility, except as the Administrator shall otherwise agree, the funds made available pursuant hereto shall be used in accordance with the procedures acceptable to the Administrator, including the procedures outlined in paragraph 1 of Schedule 2 to the Project Agreement and the Operations Manual.

3. The Available Amount or balance thereof shall only be released by the Agent Bank upon certification by the Administrator that the provisions of paragraph 2(a) have been satisfied.

Part D: Additional Escrow Amounts

1. The Additional Escrow Amounts or part thereof shall, until the expiry of the First GF Closing Date, be used only for: (a) provision of guarantees on a revolving basis under the Guarantee Facility; or (b) expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods and services

required for Parts A.2 and A.3 of the Project. Thereafter, the Additional Escrow Amounts or remaining balance thereof shall be released to the Borrower at the request of the Borrower.

2. Goods and services for Parts A.2 and A.3 of the Project shall be procured in accordance with procedures acceptable to the Administrator.

SCHEDULE 4

Procurement

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

1. Except as otherwise provided in part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Grouping of contracts

To the extent practicable, contracts shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods, which the Bank 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.

2. International Shopping

(a) Goods estimated to cost less than \$250,000 equivalent per contract, 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.

(b) Goods estimated to cost less than the \$50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provision of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature may, with the Administrator's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

Part D: 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 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 each contract procured under Section I, Part B, Part C.1 and Part C.3 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. Eligibility Restrictions

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 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.

