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**CREDIT NUMBER 4047 BOS**

# **Development Credit Agreement**

**(Health Sector Enhancement Project)**

**between**

**BOSNIA AND HERZEGOVINA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 5, 2005**

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**CREDIT NUMBER 4047 BOS**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated September 5, 2005, between BOSNIA and HERZEGOVINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association):

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

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

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

(D) the Borrower intends to contract from the Council of Europe Development Bank (CEB) a loan in an amount of fourteen million Dollars (\$14,000,000) equivalent (the CEB Loan) to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into between the Borrower and the CEB (the CEB Loan Agreement); and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreements of even date herewith between the Association and the Federation of Bosnia and Herzegovina and the Association and Republika Srpska;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985, as amended through May 1, 2004, with the modification set forth below (the General Conditions), constitute an integral part of this Agreement:

Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

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) “Beneficiary” means, for purposes of Innovation Grants under Part A.3 and Part B.3 of the Project, selected non-governmental organizations, youth organizations, public and private organizations, local departments (excluding any directly supervised by a Public Health Institute (as defined hereafter)), institutes, educational institutions and community groups which operate in the health sector;

(b) “Entity” means either the Federation (as defined hereafter) or RS (as defined hereafter), as the case may be, and “Entities” means the Federation and RS, collectively;

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

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

(e) “Federation MOH” means the Ministry of Health of the Federation, and includes any successor thereto;

(f) “Federation MOH Organizational Unit” or “FOU” means the organizational unit within the Federation MOH charged with the implementation of Part A of the Project, including procurement and financial management, staffed with people under terms of reference and with experience satisfactory to the Association, and having the responsibilities specified in the Project Implementation Manual, referred to in paragraph 1 of Schedule 1 to the Federation Project Agreement (as defined hereafter);

(g) “Federation Project Agreement” means the agreement between the Association and the Federation of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation Project Agreement;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 3.02 of the Federation Project Agreement and the RS Project Agreement, respectively;

(i) “Innovation Grant” means a grant made or proposed to be made for purposes of a Sub-project to an eligible Beneficiary by the Federation MOH under Part A.3 or by the RS MOH under Part B.3 of the Project, as the case may be, from the proceeds of the Credit;

(j) “Ministry of Civil Affairs” or “MCA” means the Ministry of Civil Affairs of the Borrower, and includes any successor thereto;

(k) “PIUs” means the Federation FOU and the RS PCU, and “PIU” means either of them;

(l) “Procurement Plan” means the Borrower’s procurement plan, dated March 3, 2005 covering the initial 12 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(m) “Project Account” means the account referred to in paragraph 4 of Schedule 1 to each Project Agreement opened and maintained by each Entity for deposit therein of counterpart funds for the Project;

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

(o) “Project Implementation Manual” means the manual referred to in paragraph 3 of Schedule 1 to the Project Agreements, satisfactory to the Association, to be adopted by the Federation and Republika Srpska, respectively, which sets forth the organizational arrangements and the operational and administrative procedures for the implementation of the Project, as the same may be amended from time to time subject to the approval of the Association;

(p) “Public Health Institute” means the Public Health Institute of the Federation or Republika Srpska, as the case may be, and “Public Health Institutes” means said Public Health Institutes, collectively;

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

(r) “RS MOH” means the Ministry of Health and Social Welfare of Republika Srpska, and includes any successor thereto;

(s) “RS PCU” means the Project Coordination Unit established within the RS MOH, referred to in paragraph 1 of Schedule 1 to the RS Project Agreement (as defined hereafter);

(t) “RS Project Agreement” means the agreement between the Association and RS of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS Project Agreement;

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

(v) “Sub-project” means, in respect of an Innovation Grant, a project to: (i) develop and implement initiatives such as HIV/AIDS prevention and control; (ii) improve the continuum of care; or (iii) expand provider payment reform, and to be carried out by a Beneficiary under Part A.3 or Part B.3 of the Project, as the case may be; and

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

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eleven million two hundred thousand Special Drawing Rights (SDR 11,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and

services required for the Project and to be financed out of the proceeds of the Credit; and

- (ii) amounts paid (or, if the Association shall so agree, to be paid) on account of withdrawals made by a Beneficiary under an Innovation Grant to meet the reasonable cost of goods and services required for a Sub-project under Parts A.3 and B.3 of the Project in respect of which the withdrawal from the Credit Account is required.

(b) The Borrower may, for the purposes of each of Parts A and B of the Project, open and maintain in Euro two separate special deposit accounts, namely the Federation Special Account and the RS Special Account, in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.03. The Closing Date shall be December 15, 2010, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 15 and July 15 commencing July 15, 2015, and ending January 15, 2025. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

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

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

- (i) the Borrower shall relend to the Federation an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories A (1) through A (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the Subsidiary Credit shall be twenty (20) years, including a ten (10) year grace period;
- (iii) the Borrower shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.04 of this

Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;

- (iv) the Borrower shall charge the Federation a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in Euro and shall be the equivalent in Special Drawing Rights (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.

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

- (i) the Borrower shall relend to Republika Srpska an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories B (8) through B (13) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the RS Subsidiary Credit shall be twenty (20) years, including a ten (10) year grace period;
- (iii) the Borrower shall charge Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge Republika Srpska a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in Euro and shall be the equivalent in Special Drawing Rights (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.



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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the Federation Project Agreement, and procurement of the goods, works and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to the RS Project Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by the Federation pursuant to Section 2.05 (a) of the Federation Project Agreement and in respect of Part B of the Project shall be carried out by RS pursuant to Section 2.05 (a) of the RS Project Agreement.

Section 3.04. The Borrower and the Association hereby agree that the Ministry of Civil Affairs shall be responsible for the coordination of monitoring and evaluation of health sector performance under the Project and shall coordinate with representatives of the Federation MOH and the RS MOH. Technical assistance to be provided under the Project will support data collection and analysis at the Entity level, which the Borrower and the Association hereby agree will then be provided to the Ministry of Civil Affairs for integration and analysis at the State level.

## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year or other period agreed to by the Bank,

referred to in paragraph (b) of Section 3.01 of the Project Agreements.

Section 4.02. The Borrower shall ensure that the Federation causes the Federation FOU and shall ensure that RS causes the RS PCU to prepare reporting forms acceptable to the Association for obtaining Project-related information, including the use of counterpart funds and other resources, in a timely manner satisfactory to the Association.

## **ARTICLE V**

### **Remedies of the Association**

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

(a) Either Entity shall have failed to perform any of its obligations under its respective Project Agreement or Subsidiary Credit Agreement;

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

(c) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the CEB Loan Agreement made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated, in whole or in part, pursuant to the terms of the CEB Loan Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under the CEB Loan Agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement;

(d) The Borrower shall have failed to perform any of its obligations under the CEB Loan Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified namely that, any events specified in paragraph (a) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of

sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

## **ARTICLE VI**

### **Effective Date; Termination**

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

- (a) a Project Agreement has been executed on behalf of the Association and an Entity on terms and conditions satisfactory to the Association; and
- (b) for the Entity referred to paragraph (a) of this Section 6.01:
  - (i) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and said Entity, on terms and conditions satisfactory to the Association;
  - (ii) the Project Implementation Manual, satisfactory to the Association, has been adopted by said Entity; and
  - (iii) the Project Account has been opened by said Entity and an initial amount of □20,000 equivalent for Part A of the Project and □15,000 equivalent for Part B of the Project, as the case may be, has been deposited into such Account.

Section 6.02. The following are specified as additional matters, with the meaning of Section 12.02 (c) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) that the Project Agreement has been duly authorized or ratified by the Entity concerned and is legally binding on said Entity in accordance with its terms; and
- (b) that the Subsidiary Credit Agreement referred to in Section 6.01 (b) (i) has been duly authorized or ratified by and is legally binding upon the Borrower and said Entity in accordance with its terms.

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

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

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

## **ARTICLE VII**

### **Representative of the Borrower; Addresses**

Section 7.01. The Minister of Finance and Treasury of the Borrower is designated as the 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 Finance and Treasury  
Trg Bih 1  
71000 Sarajevo  
Bosnia and Herzegovina

Facsimile:

(387-33) 471-822

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423 (MCI) or  
64145 (MCI)

(202) 477-6391

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

BOSNIA AND HERZEGOVINA

By /s/ Ljerka Maric

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dirk Reinermann

Authorized Representative

## SCHEDULE 1

### Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
A. <u>Part A of the Project (the Federation)</u>		
(1) Works	200,000	90%
(2) Goods, including publications and materials	1,180,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(3) Consultants' services consulting	3,010,000	100% for foreign firms and foreign individual consultants, 80% for local consulting firms and local individual consultants, and 100% for Surveys and Studies
(4) Training	780,000	100%
(5) Innovation Grants	460,000	100% of amounts disbursed

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(6) Incremental Operating Costs	330,000	95% through December 31, 2006, 75% through December 31, 2007, and 50% thereafter
(7) Unallocated	<u>440,000</u>	
SUB-TOTAL	<u>6,400,000</u>	
<b>B. <u>Part B of the Project (Republika Srpska)</u></b>		
(8) Works	130,000	90%
(9) Goods, including publications and materials	1,050,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(10) Consultants' services	2,030,000	100% for foreign consulting firms and foreign individual consultants, 80% for local consulting firms and local individual consultants, and 100% for Surveys and Studies
(11) Training	520,000	100%
(12) Innovation Grants	460,000	100% of amounts disbursed



<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(13) Incremental Operating Costs	260,000	95% through December 31, 2006, 75% through December 31, 2007, and 50% thereafter
(14) Unallocated	350,000	
SUB-TOTAL	<u>4,800,000</u>	
TOTAL	<u>11,200,000</u>	

2. For the purposes of this Schedule:

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

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that, if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be “foreign expenditures”;

(c) the term “Consultants’ services” means expenditures incurred in relation to consulting services provided by firms and individuals for purposes directly related to the Project, including audit costs, technical assistance to the MCA, the Federation MOH, the RS MOH, the Public Health Institutes, the respective Health Insurance Fund of the Federation, cantons, and Republika Srpska, health centers, hospitals, and other health institutions, for specialization training, health management training, academic training, the development of communication activities, studies, surveys, seminars, workshops, and other expenditures related to the hiring of consultants needed for Project implementation, as may be agreed with the Association;

(d) the term “Training” means training activities (other than consultants’ services) to be carried out under the Project, including the reasonable and necessary travel expenses incurred by participants in training workshops and study tours, and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association;

(e) the term “Incremental Operating Costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the Federation MOH or the RS MOH on account of Project implementation, management, monitoring and evaluation, including the cost of office rental, office equipment and supplies, office equipment maintenance and repair, vehicle operation (including fuel costs) and repair, local travel, international travel, communication, translation and interpretation, bank charges, and other miscellaneous costs, as may be agreed with the Association, but excluding salaries of officials and employees of the Borrower; and

(f) the term “Surveys and Studies” means expenditures incurred in relation to surveys or research studies associated with the implementation of Part A.3 and Part B.3 of the Project, the terms of reference for which surveys or studies shall be determined on an annual basis by the Borrower (or such other period agreed to by the Association) and shall be satisfactory to the Association.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

- (a) payments made for expenditures prior to the date of this Agreement;
- (b) Categories allocated to Part A or Part B of the Project, as the case may be, unless:
  - (i) a Project Agreement between the Association and the Entity responsible for implementing Part A or Part B of the Project, as the case may be, has been executed, on terms and conditions satisfactory to the Association;
  - (ii) a Subsidiary Credit Agreement between the Borrower and such Entity has been executed, on terms and conditions satisfactory to the Association;
  - (iii) the Project Implementation Manual, satisfactory to the Association, has been adopted by such Entity;
  - (iv) the Project Account has been opened by such Entity and an initial amount of □20,000 equivalent for Part A of the Project and □15,000 equivalent for Part B of the Project, as the case may be, has been deposited into such Account; and
  - (v) an opinion has been furnished to the Association stating that such Project Agreement and Subsidiary Credit Agreement have been duly authorized or ratified by the parties thereto and are

legally binding upon them in accordance with their respective terms; and

(c) under Category A (5) allocated to Part A of the Project or under Category B (12) allocated to Part B of the Project, as the case may be, unless the Federation MOH or the RS MOH, as the case may be, has approved the terms of reference and eligibility criteria for the Innovation Grants to be made by the respective Entity.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (a) works costing less than \$200,000 equivalent per contract; (b) contracts for goods costing less than \$100,000 equivalent per contract; (c) contracts for services of consulting firms costing less than \$100,000 equivalent per contract; (d) contracts for services of individual consultants costing less than \$50,000 equivalent per contract; and (e) training, workshops, study tours, audit fees, Innovation Grants, and incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objectives of the Project are to enhance health system efficiency by expanding and enhancing the family medicine model of primary health care, building management capacity in the sector and strengthening the policy making process through the development and implementation of a system for monitoring and evaluating sector performance and addressing inefficiencies of the sector.

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

#### Part A: The Federation

##### 1. Primary Health Care Restructuring

Restructuring primary health care to address important health issues, including the growing burden of non-communicable diseases and enabling development of an effective interface between outpatient care delivered through family medicine and in-patient care, through the provision of civil works, technical assistance, training, equipment and incremental operating costs.

##### 2. Improvement of Health Sector Management Capacity

Support for ongoing efforts of professional development in the health sector and building capacities to implement essential changes in service delivery at different levels of the health system, through the provision of technical assistance, training, and incremental operating costs.

##### 3. Health Policy Formulation and Project Support

Provision of support, technical assistance, surveys, training, equipment and incremental operating costs for the development and implementation of a system for monitoring and evaluating health sector performance and improving dialogue among governments, local stakeholders and external partners by improving data collection and analysis, enabling benchmarking and improving the use of evidence for priority setting and the allocation of resources, as well as the financing of Sub-projects through the provision of Innovation Grants.

Part B: Republika Srpska

1. Primary Health Care Restructuring

Restructuring primary health care to address important health issues, including the growing burden of non-communicable diseases and enabling development of an effective interface between outpatient care delivered through family medicine and in-patient care, through the provision of civil works, technical assistance, training, equipment and incremental operating costs.

2. Improvement of Health Sector Management Capacity

Support for ongoing efforts of professional development in the health sector and building capacities to implement essential changes in service delivery at different levels of the health system, through the provision of technical assistance, training, and incremental operating costs.

3. Health Policy Formulation and Project Support

Provision of support, technical assistance, surveys, training, equipment and incremental operating costs for the development and implementation of a system for monitoring and evaluating health sector performance and improving dialogue among governments, local stakeholders and external partners by improving data collection and analysis, enabling benchmarking and improving the use of evidence for priority setting and the allocation of resources, as well as the financing of Sub-projects through the provision of Innovation Grants.

\* \* \*

The Project is expected to be completed by June 30, 2010.

### **SCHEDULE 3**

#### **Special Accounts**

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) in case of the Federation Special Account, and Categories (8) through (13) in case of the RS Special Account set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to 800,000 in respect of the Federation Special Account and an amount equivalent to 600,000 in respect of the RS Special Account, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule.

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

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence

required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) if either Entity shall have failed to furnish to the Association, within the period of time specified in Section 3.01 (b) (ii) of the Federation Project Agreement and Section 3.01 (b) (ii) of the RS Project Agreement, as the case may be, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

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

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

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

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

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

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

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