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INTERIM FUND CREDIT NUMBER N040 BOS

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# **Interim Fund Development Credit Agreement**

(Forestry Project)

between

BOSNIA AND HERZEGOVINA

and

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

Dated as of June 11, 1998

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**INTERIM FUND CREDIT NUMBER N040 BOS**

**INTERIM FUND  
DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated as of June 11, 1998, between BOSNIA AND HERZEGOVINA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) as administrator (the Administrator) of the interim trust fund (Interim Fund) established with funds contributed by certain members of the Association, pursuant to Resolution No. IDA 184 (the Interim Fund Resolution) of the Board of Governors of the Association, adopted on June 26, 1996.

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

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Administrator to assist in the financing of the Project through the provision of resources from the Interim Fund, and the Administrator has determined that such assistance would be in accordance with the provisions of the Interim Fund Resolution;

(C) the Borrower intends to contract from the European Union a grant in an amount equivalent to \$8,700,000 to assist in financing the Project on terms and conditions set forth in an agreement to be entered into between the Borrower and the EU; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Interim Fund Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) The term "Association" wherever used in the General Conditions means the International Development Association acting as Administrator of the Interim Fund referred to in the Preamble to the Interim Fund Development Credit Agreement.

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

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

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

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

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

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

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

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

"Section 6.03. Cancellation by the Administrator. If (a) the right of the Borrower to make withdrawals from the Interim Fund Credit Account shall have been suspended with respect to any amount of the Interim Fund Credit for a continuous period of thirty (30) days, or (b) at any time, the Administrator determines, after consultation with the

Borrower, that an amount of the Interim Credit will not be required to finance the Project's costs to be financed out 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 of 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, and the 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 Credit shall be cancelled."

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

(a) "BH Sume" means Bosanskoherzegovacke Sume, a forest holding company established and operating in the Federation, and includes any successor or successors thereto;

(b) "Entity" means the Federation (defined hereinafter) or RS (defined hereinafter);

(c) "Forest Management Plan" means the forest management plan prepared or to be prepared by each SFE (hereinafter defined);

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

(e) "Federation PIU" means the Project Implementation Unit maintained within the MAWF (hereinafter defined) pursuant to paragraph 4(a) of Schedule 5 to this Agreement;

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

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

(h) "Forest Inspection Service" means the forest inspection service within both MAWF and MAFW (both as hereinafter defined);

(i) "IPCHNH" means the Institute for Protection of Cultural, Historical and Natural Heritage under the Ministry of Education, Science and Culture of the Borrower;

(j) "MAFW" means the Ministry of Agriculture, Forestry and Water Resources of Republika Srpska, and includes any successor or successors thereto;

(k) "MAWF" means the Ministry of Agriculture, Water Resources and Forestry of the Federation, and includes any successor or successors thereto;

(l) "MOF" means the Ministry of Finance of the Borrower, and includes any successor or successors thereto;

(m) "PMAU" means the Procurement Monitoring and Audit Unit of the Federation and Republika Srpska established in each Entity to monitor and audit procurement activities under projects financed, co-financed and administered by the Association, the Administrator and the International Bank for Reconstruction and Development in the territories of the Borrower;

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

(o) "RS PIU" means the Project Implementation Unit to be established within MAFW of Republika Srpska pursuant to paragraph 4(b) of Schedule 5 to this Agreement;

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

(q) "SFE" means a State Forest Enterprise; "Federation SFE" means an SFE within the Federation; "RS SFE" means an SFE within Republika Srpska; and "SFEs" means, collectively, the Federation SFEs and RS SFEs;

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

(s) "Srpske Sume" means a forest holding company established and operating in Republika Srpska, and includes any successor or successors thereto;

(t) "Subsidiary Credit" means the subsidiary credit to be made out of the proceeds of the Credit to the Federation or to Republika Srpska; and

(u) "Supply and Credit Agreement" means the agreement to be entered into between the Federation, through the Federation PIU, and Republika Srpska, through the RS PIU, respectively, and an SFE pursuant to paragraph 5 of Schedule 5 to this Agreement, and "Supply Credit" means a credit made or proposed to be made under a Supply and Credit Agreement.

## **ARTICLE H**

### **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 four million nine hundred thousand Special Drawing Rights (SDR 4,900,000).

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

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars two special deposit accounts, the Federation Special Account and the RS Special Account, each in a commercial bank on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment.

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

(a) prepare, or cause to be prepared, on the basis of guidelines acceptable to the Administrator, and furnish to the Administrator not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Administrator, a plan for the future operation of the Project; and

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

#### **ARTICLE IV**

##### **Financial Covenants**

Section 4.01. (a) The Borrower shall maintain or cause each of the Federation and Republika Srpska to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower, the Federation and Republika Srpska responsible for carrying out the Project or any part thereof.

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

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator, who shall be employed by December 31, 1998, on terms and conditions satisfactory to the Administrator;
- (ii) furnish to the Administrator as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of its financial statements for such year as so audited; and (B) the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and
- (iii) furnish to the Administrator such other information concerning such records, accounts and the audit thereof as the Administrator shall from time to time reasonably request.

### **ARTICLE III**

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

Section 3.01. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) (i) shall cause Part A of the Project to be carried out by the Federation and shall cause Part B of the Project to be carried out by Republika Srpska, all with due diligence and efficiency and in conformity with appropriate administrative, financial, forestry and environmental practices; (ii) shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable the Federation to carry out Part A of the Project and to enable Republika Srpska to carry out Part B of the Project; and (iii) shall not take or permit to be taken any action which would prevent or interfere with the carrying out of said parts of the Project by the Federation and Republika Srpska, respectively;

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

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

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

Section 3.03. Except as the Administrator shall otherwise agree, procurement of the goods required for the Project and to be financed out of the proceeds of the Interim Fund Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. The Borrower shall cause each of the Federation and Republika Srpska to employ, by September 30, 1998, procurement agents under terms of reference satisfactory to the Administrator to assist the Federation and Republika Srpska in the procurement of goods required for the carrying out of the Project.



(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three (3) consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Administrator may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Interim Fund Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Interim Fund Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Administrator notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (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 United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Interim Fund Credit not withdrawn from time to time at a rate to be set by the 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 Interim Fund Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on March I and September I in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Interim Fund Credit in semiannual installments payable on each March I and September 1 commencing September 1, 2008, and ending March 1, 2033. Each installment to and including the installment payable on March 1, 2018, 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.

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

- (i) maintain, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one (1) year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Interim Fund Credit Account or payment out of the Special Accounts was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Administrator's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

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

## **ARTICLE V**

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

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

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

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

its respective obligations under the Federation Subsidiary Credit Agreement or RS Subsidiary Credit Agreement.

- (c) (i) Subject to subparagraph (ii) of this paragraph:
  - (A) The right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
  - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Administrator that:

- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such 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.

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

- (a) the event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Administrator to the Borrower; and
- (b) the event specified in paragraph (c)(i)(B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c)(ii) of this Section.

## ARTICLE VI

### Effective Date; Termination; Designation of the 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) a Subsidiary Credit Agreement has been executed on behalf of the Borrower and an Entity with terms and conditions satisfactory to the Administrator;

(b) a PIU for said Entity has been provided with terms of reference and with staffing, including at least three (3) staff with forestry, procurement and accounting experience, and other resources satisfactory to the Administrator in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement;

(c) annual work plans for the 1998 calendar year, satisfactory to the Administrator, have been prepared by the SFEs of said Entity whose Forest Management Plans have expired, and have been approved by the Ministry of Agriculture of said Entity; and

(d) in the case of the Federation, a draft Forestry Law, satisfactory to the Administrator, has been submitted to the parliament of the Federation.

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Section 6.02. The following is an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Administrator, namely, the Subsidiary Credit Agreement referred to in Section 6.01 (a) has been duly authorized or ratified by the Entity concerned and is legally binding on such 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 determined on the date on which the Interim Fund Development Credit Agreement shall terminate or on the date twenty (20) years after the date of this Agreement, whichever shall be the earlier.

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

accordance with the Interim Fund Resolution and such decision of said Executive Directors, as of a date to be notified by the Administrator to the Borrower.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Foreign Trade and Economic Relations of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

Ministry of Foreign Trade  
and Economic Relations  
Musala 9  
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:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI)  
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 151 ~, <sup>2</sup><sub>e</sub> 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 ! / ~ a /V" FT 6ZC Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Interim Fund Credit**

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

<u>Category</u>	<u>Amount of the Interim Fund Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods		
(a) under Part A of the Project	3,100,000	100% of foreign expenditures, 100% of local expenditures
(b) under Part B of the Project	1,550,000	(ex-factory cost) and 85% of local expendi- tures for other items procured locally
(2) Unallocated		
(a) for Part A of the Project	170,000	
(b) for Part B of the Project	80,000	
 TOTAL	 4,900,000	

2. For the purposes of this Schedule:

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



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

3. Notwithstanding the provisions of paragraph I above, no withdrawals shall be made in respect of payments made for expenditures: (a) prior to the date of this Agreement; and (b) under the Category allocated to Part A or Part B of the Project unless, by September 30, 1998: (i) a Subsidiary Credit Agreement between the Borrower and the Entity responsible for implementing said Part A or Part B of the Project, as the case may be, has been executed with terms and conditions, satisfactory to the Administrator; (ii) a PIU for said Entity has been provided with terms of reference and with staffing, including at least three (3) staff with forestry, procurement and accounting experience, and other resources, satisfactory to the Administrator, in accordance with the provisions of paragraph 4 of Schedule 5 to this Agreement; (iii) annual work plans for the 1998 calendar year, satisfactory to the Administrator, have been prepared by the SFEs of said Entity whose Forest Management Plans have expired, and have been approved by the Ministry of Agriculture of said Entity; (iv) an opinion has been furnished to the Administrator stating that said Subsidiary Credit Agreement has been duly authorized or ratified by the parties thereto and is legally binding upon them in accordance with its terms; and (v) in the case of the Federation, a draft Forestry Law, satisfactory to the Administrator, has been submitted to the parliament of the Federation.

4. In the event the evidence required under paragraph (3)(b) hereof is not furnished by the date specified in said paragraph (3)(b), the Administrator may, by notice to the Borrower, cancel the amounts allocated to Category (1)(a) or (1)(b) specified in the table in paragraph I hereof or reallocate such amounts to other Categories.

5. The Administrator may require withdrawals from the Interim Fund Credit Account to be made on the basis of statements of expenditure for expenditures for goods under contracts not exceeding \$500,000 equivalent under such terms and conditions as the Administrator shall specify by notice to the Borrower.

## **SCHEDULE2**

### **Description of the Project**

The objective of the Project is to resume sustainable management and protection of Bosnian forest resources, in order to: (i) ensure the sustainability of the rapid recovery of the wood harvesting and wood processing sectors; and (ii) control the potential environmental impact of the latter.

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

#### **Part A: Support to Sustainable Forest Management in the Federation**

##### **1. Support to Forest Management:**

(a) Carrying out institutional, fiscal and marketing studies on the forestry sector of the Federation.

(b) Preparation of Forest Management Plans for the Federation SFEs, including the re-establishment of an inventory and management planning unit in BH Sume, the provision of equipment for the purpose and the provision of technical assistance and training to the staff of BH Sume to strengthen its forest management capacity.

(c) Re-establishment of the Forest Inspection Service, comprising one General Inspectorate and about 10 field inspectors, the provision of vehicles and field and office equipment to the Forest Inspection Service, and the provision of technical assistance and training to the staff of the Forest Inspection Service to strengthen its inspection capacity.

##### **2. Protection and Rehabilitation of Forests:**

(a) Protection of forests from insect attacks through biological methods, including pheromone trapping of pests.

(b) Rehabilitation of damaged forests through reforestation of forests heavily damaged during the war.

(c) Carrying out of ecological surveys in about six biologically sensitive areas, establishment of protected areas including the Igman Bjelasnica complex, and the provision of vehicles and radio communication equipment for the purpose.

3. Rehabilitation of Operational Capacity of SFEs:

(a) Provision of equipment to the Federation SFEs for repairing and maintaining forest roads damaged by war activities or not properly maintained during the war for forest management and harvesting purposes.

(b) Provision of vehicles, wood transport equipment, nursery equipment and telecommunication equipment to Federation SFEs to enable them to resume normal forest surveillance and management.

4. Project Management and Monitoring:

(a) Provision of monitoring and evaluation system, the provision of vehicles and office equipment and the provision of technical assistance to strengthen the Federation PIU in project monitoring.

Part B: Support to Sustainable Forest Management in Republika Srpska

1. Support to Forest Management:

(a) Carrying out institutional, fiscal, and marketing studies on the forestry sector of the Republika Srpska.

(b) Preparation of Forest Management Plans for the RS SFEs, including the re-establishment of an inventory and management planning unit in Srpske Sume, the provision of equipment for the purpose and the provision of technical assistance and training to the staff of Srpske Sume to strengthen its forest management capacity.

(c) Re-establishment of the Forest Inspection Service, comprising one General Inspectorate and about 12 field inspectors, the provision of vehicles and field and office equipment to the Forest Inspection Service, and the provision of technical assistance and training to the staff of the Forest Inspection Service to strengthen its inspection capacity.

2. Protection and Rehabilitation of Forests:

(a) Protection of forests from insect attacks through biological methods, including pheromone trapping of pests.

(b) Re-establishment of basic surveillance and protection in the National Park of Sutjeska, the provision of vehicles and radio communication equipment for the purpose, the reconstruction of about three guard posts and the provision of technical

assistance and training to strengthen the surveillance capacity of the staff of the National Park of Sutjeska.

3. Rehabilitation of Operational Capacity of SFEs:

(a) Provision of equipment to the RS SFEs for repairing and maintaining forest roads damaged by war activities or not properly maintained, during the war for forest management and harvesting purposes.

(b) Provision of vehicles, nursery equipment and telecommunication equipment to RS SFEs to enable them to resume normal forest surveillance and management.

4. Project Management and Monitoring:

Provision of monitoring and evaluation system, the provision of vehicles and office equipment and the provision of technical assistance and training to strengthen the RS PIU in project monitoring.

The Project is expected to be completed by December 31, 2000.

### SCHEDULE 3

#### 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 1996 and August 1996 (the Guidelines) and the following provisions of this Section, as applicable.

###### Part B: International Competitive Bidding

- I. 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 provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and procured under contracts awarded in accordance with paragraphs I and 2 of this Part B.

###### Part C: Other Procurement Procedures

###### International Shopping

Goods estimated to cost \$500,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,100,000 equivalent may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines and using standard documentation agreed with the Administrator.

###### Part D: Review by the Association 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 I to the Guidelines. Procurement of all goods and works shall

be undertaken in accordance with such procurement plan as shall have been approved by the Administrator, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract to be awarded in accordance with the provisions of Section I, Part B of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the all contracts estimated to cost the equivalent of \$300,000 or more to be awarded in accordance with the provisions of Section I, Part C of this Schedule, the following procedures shall apply:

- (i) prior to the selection of any supplier, the Borrower shall provide to the Administrator a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract, the Borrower shall provide to the Administrator a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) 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 D, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Eligibility Restrictions

1. Notwithstanding the provisions of paragraph 1.6 of the Guidelines, the proceeds of the Interim Fund Credit may only be withdrawn on account of expenditures for goods 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 from such countries shall be disqualified from bidding for such contracts, and the bidding documents shall so specify.

2. Notwithstanding the provisions of paragraph 1.10 of the Consultant Guidelines, only consultants from Participating Countries shall be eligible to provide services financed out the proceeds of the Interim Fund Credit.

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## **SCHEDULE 4**

### **Special Accounts**

1. For the purposes of this Schedule:
  - (a) the term "eligible Categories" means Category (1)(a) in case of the Federation Special Account and Category (1)(b) in case of the RS Special Account, as set forth in the table in paragraph 1 of Schedule I to this Agreement;
  - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for the Project, and to be financed out of the proceeds of the Interim Fund Credit allocated from time to time to the eligible Categories, in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term "Authorized Allocation" means an amount equivalent to \$800,000 in the case of the Federation Special Account, and an amount equivalent to \$400,000 in the case of the RS Special Account, or such other amounts as the Association shall establish, to be withdrawn from the Interim Fund Credit Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures, in accordance with the provisions of this Schedule.
3. After the Administrator has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Administrator a request or requests for a deposit or deposits which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit in the respective Special Account such amount or amounts as the Borrower shall have requested.
  - (b) (i) For replenishment of the respective Special Account, the Borrower shall furnish to the Administrator requests for deposits into the respective Special Account at such intervals as the Administrator shall specify.

- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule, for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Interim Fund Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Administrator from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the respective 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 Interim Fund Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Administrator, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the respective Special Account;

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

(d) once the total unwithdrawn amount of the Interim Fund Credit allocated to the eligible Categories for the Project, less the amount of any outstanding special commitment entered into by the Administrator pursuant to Section 5.02 of the General

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Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

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

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

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

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

## SCHEDULE 5

### Implementation Program

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

1. The Borrower shall on-lend the proceeds of the Interim Fund Credit to the Federation and Republika Srpska, on the following principal terms and conditions:

(a) the Borrower shall on-lend to the Federation an amount in Dollars equivalent to the amount of the Interim Fund Credit allocated from time to time to Category (1)(a) set forth in the table in paragraph I of Schedule 1 to this Agreement and shall on-lend to Republika Srpska an amount in Dollars equivalent to the amount of the Interim Fund Credit allocated from time to time to Category (1)(b) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term of each Subsidiary Credit shall be 35 years, including a 10-year grace period;

(c) the Borrower shall charge the Federation and Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;

(d) the Borrower shall charge the Federation and Republika Srpska a service charge on the principal amount of each Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;

(e) the principal amount of the Subsidiary Credit shall be the equivalent in Dollars (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Interim Fund Credit Account on account of expenditures for the Project; and

(f) the Borrower shall have the right to require modification in the repayment terms of each Subsidiary Credit in conformity with the provisions of Section 2.07 (b) of this Agreement.

2. The Federation shall carry out Part A of the Project and Republika Srpska shall carry out Part B of the Project with due diligence and efficiency and in conformity with

appropriate administrative, financial, forestry and environmental practices, and in accordance with the provisions set forth below.

3. Project implementation responsibilities shall be as set forth below:

(a) The MOF shall be responsible for the overall supervision of Project implementation;

(b) (i) the MAWF of the Federation shall have overall responsibility for implementation of Part A of the Project through the Federation PIU, including the implementation of the procurement, disbursement, auditing and reporting requirements and the institutional fiscal and marketing study under Part A(1)(a) of the Project, forest inspection activities under Part A(1)(c) of the Project, and the establishment of protected areas under Part A(2) (c) of the Project; and (ii) the MAFW of Republika Srpska shall have overall responsibility for implementation of Part B of the Project through the RS PIU, including the implementation of the procurement, disbursement, auditing and reporting requirements, the institutional fiscal and marketing study under Part B(1) (a) of the Project, and forest inspection activities under Part B(1)(c) of the Project;

(c) BH Sume and Srpske Sume shall be responsible for implementing forest management planning activities and forest protection from insect attacks under Parts A (1)(b), A (2)(a), B (1)(b) and (B)(2) (a) of the Project, respectively;

(d) the Federation SFEs selected to participate in Part A(3) of the Project shall be responsible for implementing said Part A(3) of the Project; and the RS SFEs selected to participate in Part B(3) of the Project shall be responsible for implementing said Part B(3) of the Project;

(e) IPCHNH shall be responsible for carrying out ecological surveys under Part A(2)(c) of the Project and an environmental monitoring plan under Part A(4)(a) of the Project;

(f) the National Park of Sutjeska shall be responsible for carrying out Part B(2)(b) of the Project;

(g) the Faculty of Forestry of the University of Banja Luka shall be responsible for carrying out an environmental monitoring plan under Part B(4)(a) of the Project; and

(h) the Federation and RS shall appoint, not later than August 31, 1998, the field inspectors under Part A(1)(c) and B (1)(c) of the Project, respectively.

4. (a) The Federation shall maintain, for purposes of Part A of the Project, the Federation PIU under terms of reference and with staffing and other resources acceptable to the Administrator. The Federation PIU shall be headed by a director and shall have overall responsibility for the management and coordination of said Part A of the Project.

(b) Republika Srpska shall establish and maintain, for purposes of Part B of the Project, the RS PIU under terms of reference and with staffing and other resources acceptable to the Administrator. The RS PIU shall be headed by a director and shall have overall responsibility for the management and coordination of said Part B of the Project.

5. For purposes of Parts A(3)(a) and (b) (wood transport equipment) and B(3)(a) of the Project, the Federation and Republika Srpska shall enter into Supply and Credit Agreements with SFEs for the supply of equipment, procured and financed out of the proceeds of the Credit, under the terms and conditions set forth in the Annex to this Schedule.

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

(a) the Federation shall employ, by September 30, 1998, procurement agents, under terms of reference satisfactory to the Administrator, to assist the Federation in carrying out the procurement of said goods under Part A of the Project; and

(b) Republika Srpska shall employ, by September 30, 1998, procurement agents, under terms of reference satisfactory to the Administrator, to assist Republika Srpska in carrying out the procurement of said goods under Part B of the Project.

7. (a) For purposes of Part A(1)(a) of the Project, the Federation shall:

(i) by December 31, 1998, furnish to the Administrator for review and approval the terms of reference for the institutional, fiscal and marketing study to be carried out under said Part A(1)(a) of the Project; and

(ii) by December 31, 1999, furnish to the Administrator the conclusions and recommendations of said institutional, fiscal and marketing study.

(b) For purposes of Part B(1)(a) of the Project, Republika Srpska shall:

(i) by December 31, 1998, furnish to the Administrator for review and approval the terms of reference for the institutional, fiscal

and marketing study to be carried out under said Part B(1)(a) of the Project; and

by December 31, 1999, furnish to the Administrator the conclusions and recommendations of said institutional, fiscal and marketing study.

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

9. The Federation shall cause BH Sume and Republika Srpska shall cause Srpske Sume respectively:

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- (a) to maintain records and accounts adequate to reflect in accordance with sound accounting practices their operations and financial condition; and
- (b)
  - (i) have their records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;
  - (ii) 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: (A) certified copies of their financial statements for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Administrator shall have reasonably requested; and
  - (iii) furnish to the Administrator such other information concerning said records, accounts and financial statements as well as the audit thereof, as the Administrator shall from time to time reasonably request.

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

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

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

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

(b) prepare, under terms of reference satisfactory to the Administrator, and furnish to the Administrator, by April 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above, on the progress achieved in carrying out the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Administrator, by June 30 of each year, the report referred to in paragraph (b) above, and thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Administrator's views on the matter.

## ANNEX TO SCHEDULE 5

### Terms and Conditions of Supply and Credit Agreements

1. The Federation, through the MAWF of the Federation, and Republika Srpska, through the MAFW of Republika Srpska, respectively, shall: (a) select eligible SFEs in accordance with criteria satisfactory to the Administrator; (b) allocate the forest roads repair and maintenance equipment to be financed under Parts A (3)(a) and B (3)(a) of the Project; and (c) allocate the wood transport equipment to be financed under Part A (3)(b) of the Project in accordance with criteria satisfactory to the Administrator.

2. Each Supply and Credit Agreement for the transfer of ownership of the equipment shall include the following terms and conditions:

(a) the value of the equipment supplied under Parts A(3)(a) and (b) and B(3)(a) of the Project, expressed in a convertible currency, shall be based on CIF (cost, insurance and freight);

(b) an interest rate of not less than LIBOR plus three percent (3%) and a repayment period of not more than eight (8) years, including a grace period of not more than one year, for forest road maintenance equipment;

(c) an interest rate of not less than LIBOR plus three percent (3%) and a repayment period of not more than five (5) years, including a grace period of not more than one (1) year, for wood transport equipment; and

(d) repayments in Deutsche Mark which shall be channeled through selected local credit institutions.

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**CERTIFICATE**

I hereby certify that the foregoing is a true copy of  
the original in the archives of the International  
Development Association.

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A handwritten signature in black ink, appearing to read "Lawrence", is written over a solid horizontal line.

FOR SECRETARY