

CONFORMED COPY

CREDIT NUMBER 3029 BOS

Development Credit Agreement

(Emergency Natural Gas System Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 20, 1998

CREDIT NUMBER 3029 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 20, 1998, 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) Parts A, B and C of the Project will be carried out by Sarajevogas (defined hereinafter) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the Federation (defined hereinafter) and the Federation will make available to Sarajevogas a portion of the proceeds of the Credit as provided in this Agreement;

(C) Part D of the Project will be carried out by Toplane-Sarajevo (defined hereinafter) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Toplane-Sarajevo a portion of the proceeds of the Credit as provided in this Agreement;

(D) the Borrower intends to contract from other sources of finance (the Cofinanciers) grants in an aggregate amount equivalent to about thirty-three million

dollars (\$33,000,000) to assist in financing the Project on the terms and conditions set forth in agreements to be entered into between the Borrower and the Cofinanciers (the Cofinanciers' Agreements); 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 Agreement of even date herewith between the Association and Sarajevogas;

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 last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association 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 member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

- (c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty (30) days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action 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 Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the 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 Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association 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) "EDHRP Agreement" means the Trust Fund Credit Agreement dated May 20, 1996 (TF024034) for the Emergency District Heating Reconstruction Project between Bosnia and Herzegovina and the International Development Association (Acting as Trustee of the Trust Fund for Bosnia and Herzegovina);
- (b) "Federation" means the Federation of Bosnia and Herzegovina, a political sub-division of the Borrower, and includes any successor or successors thereto;
- (c) "Mines" means landmines and includes explosive items such as bombs, booby

traps, munitions and unexploded ordnance of any kind;

(d) "PIU" means the Project Implementation Unit established in Sarajevogas for purposes of implementing Parts A, B and C of the Project;

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

(f) "Project Agreement" means the agreement between the Association and Sarajevogas 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 Project Agreement;

(g) "Sarajevogas" means Sarajevogas Sarajevo, the public enterprise for the transmission and distribution of natural gas, established on May 10, 1975, through registration No. U/I-426/90 of the Economic Court and operating under Statute No. 72PK/K47, dated November 1, 1994;

(h) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(i) "Statutes of Sarajevogas" means the statutes of Sarajevogas, dated November 1994, as amended to the date of this Agreement;

(j) "Statutes of Toplane-Sarajevo" means the statutes of Toplane-Sarajevo, dated March 4, 1994, as amended to the date of this Agreement;

(k) "Subsidiary Credit Agreement" means the agreement to be entered into among the Borrower, the Federation and Sarajevogas pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Credit Agreement; "Subsidiary Credit" means the credit to be made out of proceeds of the Credit provided to the Federation under the Subsidiary Credit Agreement; and "Sub-credit" means the credit to be made out of the proceeds of the Subsidiary Credit provided to Sarajevogas under the Subsidiary Credit Agreement;

(l) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Toplane-Sarajevo pursuant to the provisions of Schedule 4 to this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Loan Agreement; and Subsidiary Loan means the loan to be made out of the proceeds of the Credit provided to Toplane-Sarajevo under the Subsidiary Loan Agreement; and

(m) "Toplane-Sarajevo" means the public enterprise for district heating, established on January 16, 1978, through registration No. U-I-6/78 of the Economic Court and operating under Statute No. 02-012-24 dated March 4, 1994.

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 seven million three hundred thousand Special Drawing Rights (SDR 7,300,000).

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

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

Section 2.03. The Closing Date shall be July 31, 1999, 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 the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each June 15 and December 15 commencing June 15, 2008 and ending December 15, 2032. Each installment to and including the installment payable on December 15, 2017 shall be one and one-fourth percent (1-1/4%) of such principal amount, and each installment thereafter shall be two and one-half percent (2-1/2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six (6) months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five (5) years on such repayment of principal.

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

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

Section 2.08. The currency of the United States of America 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 this Agreement:

- (i) for purposes of Parts A, B and C of the Project, shall cause Sarajevogas to perform in accordance with the provisions of the Project Agreement all of the obligations of Sarajevogas therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other sources, necessary or appropriate to enable Sarajevogas to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance; and
- (ii) for purposes of Part D of the Project, shall cause Toplane-Sarajevo to perform in accordance with the provisions of Schedule 4 to this Agreement all of the obligations of Toplane-Sarajevo therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other sources, necessary or appropriate to enable Toplane-Sarajevo to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall enter into a subsidiary credit agreement with the Federation and Sarajevogas under terms and conditions which shall have been approved by the Association, which shall include the following:

- (i) the Borrower shall relend to the Federation and the Federation shall relend to Sarajevogas an amount equivalent to the amount of the Credit allocated from time to time to Categories (1)(a), (1)(b), (2)(a), (3) and (4) specified in the table set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
- (ii) the term of the Subsidiary Credit and the Sub-credit, respectively, shall be 35 years, including a 10-year grace period;
- (iii) the Borrower shall charge the Federation and the Federation shall charge Sarajevogas 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 and the Sub-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 and the Federation shall charge Sarajevogas a service charge on the principal amount of the Sub-credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;
- (v) the principal amount of the Subsidiary Credit and the principal amount of the Sub-credit shall be repayable in Dollars and 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 Credit Account on account of expenditures for Parts A, B and C of the Project; and
- (vi) the Borrower shall have the right to require modification in the repayment terms of the Subsidiary Credit in conformity with the provisions of Section 2.07(b) of this Agreement and the Federation shall have the right to require modification in the repayment terms of the Sub-credit in conformity with the provisions of Section 2.07(b) of this Agreement.

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

Section 3.02. Except as the Association shall otherwise agree:

(a) procurement of the goods, works and consultants' services required for Parts A, B (except for Parts B.1(f) and B.2(f)) and C of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement;

(b) procurement of the works required for Parts B.1(f) and B.2(f) of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Section I.B.1 of Schedule 3 to the Development Credit Agreement dated July 31, 1996 (Credit No. 2905 BOS) for the Emergency Landmines Clearance Project between Bosnia and Herzegovina and the International Development Association, except that with respect to the first two contracts for works under said Parts B.1(f) and B.2(f) of the Project, the procedures set forth in paragraphs 2 and 3 of Appendix 1 of the Guidelines pertaining to prior review shall apply; and

(c) procurement of the goods and works required for Part D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the EDHRP Agreement.

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 acquisition, respectively) in respect of Parts A, B and C of the Project shall be carried out by Sarajevogas pursuant to Section 2.02 of the Project Agreement.

Section 3.04. The Borrower shall:

(a) by October 31, 1998, carry out and complete under Part C(2) of the Project, a study on restructuring the natural gas sector and a study on the appropriate levels of gas tariffs, both under terms of reference satisfactory to the Association;

(b) furnish to the Association for review and comment the conclusions and recommendations of such studies; and

(c) thereafter put into effect the measures agreed with the Association on the basis of the aforementioned studies.

Section 3.05. The Borrower shall take all measures necessary to ensure that all licenses, permits and approvals required for the rapid reconstruction of the transmission and distribution systems under Part B of the Project are granted to Sarajevogas on a timely basis.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure in respect of the Project, the Borrower shall:

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) (i) of this Section and including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, who shall be employed by March 31, 1998, on terms and conditions satisfactory to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation can be relied upon to support the related withdrawals; and

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

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

(a) Sarajevogas shall have failed to perform any of its obligations under the Project Agreement.

(b) The Federation or Sarajevogas shall have failed to perform any of its respective obligations under the Subsidiary Credit Agreement.

(c) Toplane-Sarajevo shall have failed to perform any of its obligations under the Subsidiary Loan Agreement.

(d) 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 Sarajevogas will be able to perform its obligations under the Project Agreement.

(e) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation or Sarajevogas will be able to perform its respective obligations under the Subsidiary Credit Agreement.

(f) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that Toplane-Sarajevo will be able to perform its obligations under the Subsidiary Loan Agreement.

(g) The Statutes of Sarajevogas shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of Sarajevogas or its ability to carry out Parts A, B and C of the Project or the ability of Sarajevogas to perform any of its obligations under the Project Agreement or the Subsidiary Credit Agreement.

(h) The Statutes of Toplane-Sarajevo shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of Toplane-Sarajevo or its ability to carry out Part D of the Project or the ability of Toplane-Sarajevo to perform any of its obligations under the Subsidiary Loan Agreement.

(i) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Sarajevogas or for the suspension of its operations.

(j) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Toplane-Sarajevo or for the suspension of its operations.

(k) The development activity for which the land or facilities has or have been cleared of Mines under the Project is, in the sole opinion of the Association, jeopardized by laying down new Mines anywhere in the territory of the Borrower.

(l) The Cofinanciers' Agreements shall have failed to become effective by April 30, 1998, or such later date as the Association may agree provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

- (m) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant 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 agreement providing therefor.
- (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 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) any event specified in paragraphs (a), (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (g), (h), (i), (j), (k), (l) and (m) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective date; Termination

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

(a) the PIU has been provided with qualified and experienced staff and other resources acceptable to the Association, including, inter alia, a manager, two engineers, two financial analysts and two procurement specialists; and

(b) the Subsidiary Credit Agreement has been executed on behalf of the Borrower, the Federation and Sarajevogas pursuant to Section 3.01 (b) of this Agreement.

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

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

(b) the Subsidiary Credit Agreement has been duly authorized or ratified by and is legally binding upon the Borrower, the Federation and Sarajevogas 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. Except as provided in Section 2.09 of this Agreement, the Minister of Foreign Trade and Economic Relations of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General

Conditions.

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

For the Borrower:

Ministry of Foreign Trade
and Economic Relations
Musala 9
71000 Sarajevo
Bosnia and Herzegovina

For the Association:

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

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

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

BOSNIA AND HERZEGOVINA

By /s/ K. Zubak

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ R. O'Sullivan

Acting Regional Vice President
Europe and Central Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works:		100% (net taxes)
(a) under Part B of the Project (other than Parts B.1(f) and B.2 (f))	1,270,000	
(b) under Parts B.1(f)	220,000	

	and B.2 (f) of the Project		
	(c) under Part D of the Project	910,000	
(2)	Equipment and materials:		100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
	(a) under Part B of the Project	910,000	
	(b) under Part D of the Project	2,730,000	
(3)	Consultants' services, training and auditing	440,000	100%
(4)	Incremental operating costs	110,000	100%
(5)	Unallocated	710,000	
	TOTAL	7,300,000	

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 goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures"; and

(c) the term "incremental operating costs" means the incremental expenses incurred by the PIU on account of Parts A, B and C of the Project for staff salaries, office facilities, services, staff travel and consumable office supplies as shall be agreed with the Association.

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

(a) prior to the date of this Agreement; and

(b) under Categories (1) (c) and (2) (b) unless:

(i) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and Toplane-Sarajevo pursuant to paragraph 1 of Schedule 4 to this Agreement; and

(ii) the Association has received an opinion or opinions that the Subsidiary Loan Agreement has been duly authorized or ratified by and is legally binding upon the Borrower and Toplane-Sarajevo in accordance with its terms.

4. The Association may require withdrawals from the Credit Account: (a) for Parts A, B, and C of the Project to be made on the basis of statements of expenditure for: (i) expenditures for goods and works under contracts not exceeding \$50,000 equivalent each to be awarded in accordance with the provisions of Section I, Part C.4 of Schedule 1 to the Project Agreement; and (ii) incremental operating costs and training, under such terms and conditions as the Association shall specify by notice to the Borrower; and (b) for Part D of the Project to be made on the basis of statements of expenditure in accordance with paragraph 4 of Schedule 1 to the EDHRP Agreement.

Description of the Project

The objectives of the Project are: (i) to restore a safe and reliable gas supply by repairing or reconstructing the gas transmission and distribution systems; (ii) to enhance system and energy efficiency and reduce environmental pollution by converting self-made gas connections to gas standards; and (iii) to restore district heating service, improve energy security and to initiate district heating network improvements.

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: Engineering Analysis of Gas Transmission and Distribution Systems

1. Carrying out of an engineering analysis of the gas transmission system from Zvornik to Sarajevo and from Sarajevo to Zenica.
2. Carrying out an engineering analysis of the Sarajevogas distribution system.

Part B: Reconstruction of Gas Transmission and Distribution Systems

1. Gas Transmission System:

- (a) Reconstruction of the pipeline from Zvornik to Sarajevo.
- (b) Rehabilitation, repair and replacement, if necessary, of the main line block valves, take-off valves, scrapper trap installations and other above ground facilities.
- (c) Rehabilitation of the Butila and Hum metering and regulating stations and construction of a new metering facility at Kladanj.
- (d) Replacement and repair of damaged cathodic protection facilities along the pipeline from Zvornik to Sarajevo.
- (e) Provision of spare parts and safety equipment required for the operation of the pipeline in a safe and reliable manner.
- (f) Clearance of Mines in the right of way in the transmission system.

2. Sarajevogas Distribution System:

- (a) Repair or replacement and changing of parts in the measurement and regulation stations of large consumers.
- (b) Construction of polyethylene piping to connect new consumers to the distribution system and to provide a safe, efficient and reliable network piping system.
- (c) Installation of meters and regulators with new connections and repair of existing connections.
- (d) Provision of spare parts, service vehicles and safety equipment for the efficient maintenance of the distribution system.
- (e) Repair of interior piping and replacement of unsafe and inefficient heating and cooking appliances.
- (f) Clearance of Mines in the right of way in the distribution system.

Part C: Technical Assistance

1. Strengthening the staff of Sarajevogas in project management and engineering, financial and commercial management, and system planning, and the provision of training for this purpose.
2. Carrying out of a gas sector restructuring plan and gas tariff study.
3. Carrying out of a feasibility study of alternative gas supply options.

Part D: District Heating Component

1. Reconstruction and rehabilitation of boilers and boiler-house buildings, including the replacement of pipes, pumps, valves, regulators, insulation, wiring and electronic equipment and building repair.
2. Repair of the pipeline network.
3. Rehabilitation of about 120 substations.
4. Installation of a central monitoring and control center.
5. Reconstruction of damaged internal installations (radiators, thermostatic valves, meters and pipe connections) in up to about 50,000 apartments.
6. Installation of individual heat consumption meters in about 38,000 unmetered apartments, replacement or repair of metering installations, and installation of heat production metering at all network boilers, substations and at the entrance of all heat consuming buildings.
7. Reconstruction of office facilities and service facilities such as workshops.

* * *

The Project is expected to be completed by January 31, 1999.

SCHEDULE 3A

Special Account A for Parts A, B and C of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (a), (1) (b), (2) (a), (3) and (4) 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 \$1,500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the 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 Special Account such amount as the Borrower shall requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All deposits shall be withdrawn by the Association the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and evidence. have such from other

4. For each payment made by the Borrower out of the 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 the 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 the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special 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 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, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special 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 the 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 the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to

the Association all or any portion of the funds on deposit in the Special Account.

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

SCHEDULE 3B

Special Account B for Part D of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) (c) and (2) (b) 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 \$1,800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the 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 Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special 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 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 the 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 the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special 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 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, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special 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 the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special 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 the 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 the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

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

SCHEDULE 4

Implementation of Part D of the Project

1. (a) The Borrower shall enter into a subsidiary loan agreement between the Borrower and Toplane-Sarajevo under terms and conditions which shall have been approved by the Association, which shall include the following:

(i) the Borrower shall relend to Toplane-Sarajevo an

amount equivalent to the amount of the Credit allocated from time to time to Categories (1)(c) and (2)(b) specified in the table set forth in paragraph 1 of Schedule 1 to this Agreement;

(ii) the term of the Subsidiary Loan shall be the term specified in paragraph 1 of the Implementation Program set forth in Schedule 4 to the EDHRP Agreement;

(iii) the Borrower shall charge Toplane-Sarajevo 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 Loan not withdrawn from time to time;

(iv) the Borrower shall charge Toplane-Sarajevo a service charge on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement;

(v) the principal amount of the Subsidiary Loan shall be repayable in Dollars and 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 Credit Account on account of expenditures for Part D of the Project; and

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

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

(c) The Borrower shall cause Toplane-Sarajevo to carry out Part D of the Project in accordance with the Implementation Program set forth in Schedule 4 to the EDHRP Agreement.

2. The Borrower shall ensure that all licenses, permits and approvals required for the rapid reconstruction of the district heating system under Part D of the Project are granted promptly to Toplane-Sarajevo.

3. (a) The Borrower shall cause Toplane-Sarajevo to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and resources of Toplane-Sarajevo and the expenditures in respect of Part D of the Project.

(b) The Borrower shall cause Toplane-Sarajevo to:

(i) have the records and accounts referred to in sub-paragraph (a) of this paragraph for each fiscal year, audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, who shall be employed by March 31, 1998, on terms and conditions satisfactory to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

4. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall cause Toplane-Sarajevo to:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this

purpose between the Association and Toplane-Sarajevo, a plan for the future operation of Part D of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with Toplane-Sarajevo on said plan.

