

CONFORMED COPY

TF 020874

Grant Agreement

(Economic Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION  
acting as Administrator  
of Grant Funds provided by the  
Minister for Development Cooperation of the Netherlands

Dated March 1, 1996

TF 020874

GRANT AGREEMENT

AGREEMENT, dated March 1, 1996, between BOSNIA AND HERZEGOVINA (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), acting as Administrator (the Administrator) of grant funds provided by the Minister for Development Cooperation of the Netherlands (the Minister).

WHEREAS (A) pursuant to an arrangement dated May 24, 1995 between the Minister and the International Bank for Reconstruction and Development (the Bank) and the Association, the Minister has requested the Bank and the Association, and the Bank and the Association have agreed, to administer grant funds to be made available by the Minister for the financing of such programs and projects as the Minister may from time to time determine will be supported by the Bank and the Association, as the case may be, in accordance with the provisions of such arrangement; and

(B) pursuant to an arrangement dated February 23, 1996 between the Minister and the Bank and the Association, the Minister has agreed to make available to the Recipient a grant out of said grant funds (the Grant) to finance the cost of carrying out the project described in Schedule 2 to this Agreement (the Project) on the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (i) Article I;
- (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (12), and (13), 2.02 and 2.03;
- (iii) Section 3.01;
- (iv) Section 4.01 and 4.05;
- (v) Article V;
- (vi) Sections 6.01, 6.02 (a), (b), (c), (d), (e), (g), and (h), 6.03, 6.04 and 6.06;
- (vii) Section 8.01 (b);
- (viii) Sections 9.01, 9.03, 9.04, 9.05, 9.06, 9.07, and 9.08;
- (ix) Article X; and
- (x) Article XI.

(b) The General Conditions shall be modified as follows:

- (i) the term "Association," wherever used in the General Conditions, other than in Section 6.02 (e) thereof, means the International Development Association acting as Administrator of the Grant pursuant to the arrangements between the Minister and the Bank and the Association referred to in Recital (A) of this Agreement, except that in Section 6.02, the term "Association" shall also include the International Development Association acting in its own capacity;
- (ii) the term "Borrower," wherever used in the General Conditions, means the Recipient;
- (iii) the term "Development Credit Agreement," wherever used in the General Conditions, means this Agreement;
- (iv) the term "Credit," wherever used in the General Conditions, means the Grant;
- (v) the term "Credit Account," wherever used in the General Conditions, means the Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the Grant is credited;
- (vi) the term "Project," wherever used in the General Conditions, means the Project described in Schedule 2 to this Agreement; and
- (vii) Section 5.01 is modified to read:

"Except as the Recipient and the Bank 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 procured 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."

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

- (a) "Federation" means the Federation of Bosnia and Herzegovina;
- (b) "Central Bank" means the Central Bank of the Recipient which is to be established as the successor to the National Bank of Bosnia and Herzegovina;
- (c) "FBSA" means the Federation Banking Supervisory Authority of the Federation;
- (d) "PCU" means the Project Coordination Unit as referred to in Schedule 4.A of this Agreement;
- (e) "Subsidiary Grant Agreement" means the agreement entered into between the Recipient and the Federation pursuant to Section 3.02 (a) of this Grant Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Grant Agreement;
- (f) "Participating Financial Institution" or "PFI" means any bank or other credit institution established and operating in accordance with the laws and regulations of the Recipient and approved by the FBSA for participation in the Project selected by the Recipient on the basis of criteria acceptable to the Administrator for purposes of administering Sub-loans out of the proceeds of the Grant;
- (g) "Subsidiary Loan Agreement" means any agreement entered into between the Federation, through the PCU, and a PFI pursuant to this Grant Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Loan Agreement;
- (h) "Subsidiary Loan" means any loan made pursuant to a Subsidiary Loan Agreement;
- (i) "Sub-loan" means a loan made or proposed to be made by a PFI out of the proceeds of the Grant to a Beneficiary for a Sub-project;
- (j) "Sub-project" means a specific development project to be carried out by a Beneficiary utilizing the proceeds of a Sub-loan;
- (k) "Beneficiary" means any eligible small- and medium-sized enterprise or microenterprise duly established and operating under the laws of the Recipient, to which a PFI proposes to make or has made a Sub-loan;
- (l) "private enterprise" means any commercial entity registered according to the applicable laws and regulations of the Recipient, in which the management is not directly or indirectly controlled by the Recipient, and more than 50% of the proprietary interest is held by persons or entities other than the Recipient, the local authorities or any subdivision thereof, or entities controlled by the Recipient;
- (m) "Sub-grant" means a grant made or proposed to be made by Municipalities out of the proceeds of the Grant to poor households and the war disabled for poverty alleviation;
- (n) "Municipalities" means the municipalities of the Federation;
- (o) "Special Account" means the account referred to in Section 2.03 (b) of this Agreement;
- (p) "Dutch Guilders" and "NLG" mean the currency of the Netherlands; and
- (q) "DEM" means Deutsche Marks.

## ARTICLE II

### The Grant

Section 2.01. The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount of thirty-five million six hundred forty thousand Dollars (\$35,640,000).

Section 2.02. The arrangement referred to in Recital (B) to this Agreement contains a Dutch Guilder ceiling on the amount of grant funds to be made available by the Minister and to which the amount of the Grant under this Agreement is subject. The Administrator shall not be obligated to make any payment under this Agreement except to the extent it shall have received funds for the purpose from the Minister pursuant

to said arrangement or to the determination made by the Minister referred to in Recital (A) to this Agreement.

Section 2.03. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) amounts paid (or, if the Administrator shall so agree, amounts to be paid) by a PFI on account of withdrawals made by a Beneficiary under a Sub-loan to meet the reasonable cost of goods and services required for the Sub-project in respect of which the withdrawal from the Grant Account is requested; (ii) amounts paid (or, if the Administrator shall so agree, amounts to be paid) by a Municipality under a Sub-grant; and (iii) expenditures made (or if the Administrator shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A, C and E of the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in a commercial bank or the National Bank of Bosnia and Herzegovina on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.04. The Closing Date shall be December 31, 1997 or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

### ARTICLE III

#### Execution of the Project

Section 3.01. The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause the Federation to carry out the Project through its Ministry of Finance, and such other ministries and agencies as agreed with the Administrator, with due diligence and efficiency and in accordance with the Implementation Program set forth in Schedule 4 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of the Recipient and the Administrator.

Section 3.02. (a) For purposes of the carrying out of the Project, the Recipient shall provide the proceeds of the Grant to the Federation under a Subsidiary Grant Agreement to be entered into between the Borrower and the Federation under terms and conditions which shall have been approved by the Administrator, which shall include those described in the Implementation Program set forth in Schedule 4 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of the Recipient and the Administrator.

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

Section 3.03. Except as the Administrator shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. (a) The Recipient shall cause the Federation 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 Federation responsible for carrying out the Project or any part thereof.

(b) The Recipient shall cause the Federation to:

- (i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account 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 months after the end of each such year, the report of such audit by said auditors, of such scope and in such

detail as the Administrator shall have reasonably requested; and

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

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

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last withdrawal from the Grant Account 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.

#### ARTICLE IV

##### Effectiveness

Section 4.01. The following event is specified as a condition to the effectiveness of this Agreement, namely, that the Recipient shall have furnished to the Administrator evidence that the Subsidiary Grant Agreement shall have been executed with terms and conditions satisfactory to the Administrator.

Section 4.02. This Agreement shall enter into effect on the date upon which the Administrator dispatches to the Recipient notice of its acceptance of the evidence required by Section 4.01 of this Agreement.

Section 4.03. If, before dispatch to the Recipient of the notice referred to in Section 4.02 of this Agreement, any event shall have occurred which would have entitled the Administrator to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the Administrator may postpone the dispatch of said notice until such event or events shall have ceased to exist.

Section 4.04. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

#### ARTICLE V

##### Representation

Section 5.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance  
71000 Sarajevo  
Bosnia and Herzegovina

For the Administrator and the Bank:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

197688 (TRT),  
248423 (RCA),  
64145 (WUI) or  
82987 (FTCC)

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

BOSNIA AND HERZEGOVINA

By /s/ Mirsad Kikanovic

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION  
as Administrator of the Grant

By /s/ Johannes Linn

Authorized Representative

#### SCHEDULE 1

##### Withdrawal of the Grant

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

Category	Amount of the Grant Allocated (Expressed in Dollar Equivalent)	% of Expenditures to be Financed
(1) Goods	7,665,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 85% of local expenditures for other items procured locally
(2) Civil works	7,475,000	90%
(3) Sub-loans under Part B of the Project	5,000,000	100% of amounts disbursed
(4) Sub-grants under Part D of the Project	10,000,000	100% of amounts disbursed
(5) Consultants' services, training, fellowships	4,670,000	100%

(6) Incremental operating costs	830,000	100%
TOTAL	35,640,000	

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term "local expenditures" means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term "incremental operating costs" means operating and maintenance costs which would not have been incurred absent the Project and includes, inter alia, costs with respect to: (i) maintenance and operation of equipment procured under the Project; (ii) incremental staff salaries; and (iii) office supplies.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of a Sub-loan unless the Sub-loan has been made in accordance with the procedures and on terms and conditions set forth or referred to in the Annex to Schedule 4 to this Agreement; (b) in respect of a Sub-grant unless the initial eligibility criteria and the monthly eligibility criteria have been approved by the Administrator as set forth in Schedule 4 to this Agreement; and (c) payments made for expenditures prior to the date of this Agreement.

4. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for: (a) expenditures for goods and works under contracts not exceeding \$5,000,000 equivalent each; (b) payments made by PFIs for Sub-loans not exceeding \$5,000,000 equivalent each; and (c) contracts for employment of consultants not exceeding \$250,000 equivalent each, under such terms and conditions as the Administrator shall specify by notice to the Recipient.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to help rehabilitate and restore the Federation's severely damaged productive capacity and infrastructure facility, to initiate production and economic activities in a war-devastated economy, to support poverty alleviation and to assist in the establishment of a minimum level of institutional framework for country governance and policy formulation necessary for an effective implementation of the Federation's reconstruction program.

The Project consists of the following activities subject to such modifications as the Recipient and the Administrator may agree from time to time to achieve the above objectives.

#### Part A:

Support for the establishment and functioning of key ministries and governmental institutions of the Federation, through the provision of office equipment, including telecommunications facilities and computers; the repair and refurbishing of administration buildings; and the provision of technical assistance and salary supplements to the personnel of said governmental institutions to strengthen their capacity for effective governance and Project implementation.

#### Part B:

(1) The establishment and operation by the Federation of a credit facility for the financing, through the provision of Sub-loans by PFIs to Beneficiaries, of specific development projects and associated working capital in the production and processing sectors.

(2) Provision of technical assistance and training to the personnel of PFIs to strengthen their credit evaluation capacity.

#### Part C:

Provision of critical inputs to the agricultural sector, the power sector, and the transport sector of the Federation.

Part D:

Support for the implementation of the Federation's emergency social benefits program through provision of Sub-grants by Municipalities to poor households and the war disabled for poverty alleviation.

Part E:

Provision of technical assistance, goods and works for pilot projects and for project preparation activities in various economic sectors including: (i) housing; (ii) education; (iii) land-mine clearing; (iv) water/waste water management; (v) agriculture; and (vi) refugees and demobilization.

\* \* \* \*

The Project is expected to be completed by June 30, 1997. .

### SCHEDULE 3

#### Procurement and Consultants' Services

##### Section I. Procurement of Goods and Works

###### Part A: General

Goods and works 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 (the Guidelines) and the following provisions of this Section, as applicable.

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

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

2. Section II of the Guidelines shall be modified to provide that: (i) the General Procurement Notice (GPN) shall also be published in the local press; (ii) individual advertisement for specific contracts shall also be published in the local press; (iii) the period allowed for submission of bids shall be four (4) weeks; and (iv) bid and payment currency shall be limited to one currency widely used in international trade.

3. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraphs 1 and 2 of this Part B, namely, that 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 Recipient.

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

###### 1. Limited International Bidding

Goods: (i) estimated to cost more than \$2,000,000 equivalent but less than \$5,000,000 equivalent per contract; or (ii) which the Bank agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines. In addition, the list of suppliers shall be derived from, inter alia, the expressions of interest received in response to the GPN. Bidding documents may provide that the bidders may send their bids by fax, in which case, bid security will not be required. Furthermore, the entity responsible for procurement will be required to put in place mechanisms to ensure confidentiality of bids received by fax.

###### 2. International Shopping

Goods estimated to cost less than \$2,000,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines and using standard documentation agreed with the Administrator.

###### 3. National Shopping



Goods estimated to cost \$200,000 equivalent or less per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

#### 4. Direct Contracting

Goods and works which should be procured as an extension of an existing contract or must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature or which must be urgently procured, may, with the Bank's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

#### 5. National Competitive Bidding

Works estimated to cost \$5,000,000 equivalent or less per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines with the following modifications:

- (i) general prequalification will be carried out through advertising in the local press. The list of prequalified bidders will be updated from time to time as a result of new expression of interest and information submitted by qualified contractors;
- (ii) prequalified bidders will be allowed a minimum of four (4) weeks to submit their bids;
- (iii) bidding documents will follow the formats of the National Competitive Bidding documents agreed with the Administrator;
- (iv) if interested, foreign bidders will be allowed to submit bids;
- (v) bids will be submitted in sealed envelopes, and both mailed and hand-carried bids will be accepted;
- (vi) all bids will be opened at the same time in public;
- (vii) contracts will be awarded to the lowest evaluated bidder;
- (viii) bidders will not be asked, nor allowed, to change the substance of their bids after the bid closing date, and price negotiations with the lowest evaluated bidder will be confined to those cases listed in the Guidelines; and
- (ix) in the absence of prequalifications, postqualification criteria will be explicitly stated in the bidding documents.

#### 7. Procurement of Small Works

Works estimated to cost less than \$1,000,000 per contract, may be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three qualified contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to successfully complete the contract.

#### 8. Procurement from UN Agencies

Goods may be procured from UN agencies such as FAO, ILO, UNICEF and WHO in accordance with the provisions of paragraph 3.9 of the Guidelines.

#### 9. Under Part B of the Project

Goods and works shall be procured at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts thereof and of the quality and the competence of the parties rendering them.

Part D: Review by the Administrator of Procurement Decisions

1. Prior Review

With respect to each contract to be awarded in accordance with the provisions of: (i) Section I, Part B of this Schedule; (ii) Part C.1(ii) of this Schedule; and (iii) Part C.4 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. Post Review

With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Administrator. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Administrator shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Administrator review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consultants estimated to cost less than \$500,000 equivalent each. However, said exceptions to prior Administrator review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Administrator, or (d) amendments to contracts for the employment of consultants raising the contract value to \$500,000 equivalent or above.

SCHEDULE 4

Implementation Program

Except as the Recipient and the Administrator shall agree, the Subsidiary Grant Agreement shall contain the following Project implementation arrangements.

A. Project Management

The Federation shall maintain the PCU under terms of reference and with staffing and other resources and terms of reference acceptable to the Administrator. The PCU shall be headed by a director and shall have the overall responsibility for Project management and coordination, including coordination of the carrying out of the Project by the Ministry of Finance of the Federation, and such other ministries and agencies and institutions of the Federation as agreed with the Administrator.

B. Part B of the Project

1. For the purpose of carrying out Part B of the Project, the Federation shall maintain or cause to be maintained: (a) a separate credit line section within the PCU, with staff and other resources and terms of reference satisfactory to the Administrator, to be responsible for coordinating the carrying out of the said Part B of the Project; and (b) arrangements, satisfactory to the Administrator, with FBSA pursuant to which FBSA shall assist the Federation in determining the compliance by PFIs with the conditions set forth in Part B of the Annex to this Schedule.

2. The Federation shall through the PCU:

(a) relend to the PFIs the equivalent of the proceeds of the Grant allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Subsidiary Loan Agreements to be entered into between the Federation and the PFIs, under terms and conditions which shall have been approved by the Administrator, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of Part B of the Project and the carrying out by the PFIs of their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Administrator;

(c) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(d) exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Administrator and the Recipient and to accomplish the purposes of the Grant, and, except as the Administrator shall otherwise agree, not assign, amend, abrogate or waive any such Subsidiary Loan Agreement or any provision thereof.

3. Except as the Administrator shall otherwise agree, the Federation shall in respect of repayments of principal of each Subsidiary Loan utilized in the making of Sub-loans under the Project:

(a) open and maintain in a bank, acceptable to the Administrator, an account on terms and conditions satisfactory to the Administrator; and

(b) upon receipt of each such repayment, credit the same to said account. All amounts to be credited shall be utilized exclusively to finance, through PFIs, specific projects on similar terms and conditions as those applicable to the Sub-loans made out of the Subsidiary Loan so repaid and credited to said account. The Federation shall maintain said separate account and credit and utilize said repayments of principal of the portions of the Subsidiary Loan utilized in the making of Sub-loans under the Project until December 31, 2000.

4. For the purpose of Section 9.07 of the General Conditions, and without limitation thereto, the Federation shall:

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

#### C. Part D of the Project

1. Part D of the Project shall be carried out through the Ministry of Refugees and Social Affairs of the Federation, with the assistance of the Municipalities and the PCU.

2. Sub-grants shall be made out of the proceeds of the Grant to provide minimal income to those individuals and households which are residents of the Federation and have no income earning capacity. For the purpose of Part D of the Project, the Ministry of Refugees and Social Affairs of the Federation shall establish eligibility criteria for households based on total household income. A higher eligibility criteria may be determined for Municipalities with higher income levels.

3. Initial eligibility criteria shall be established at the beginning of the implementation of Part D of the Project. The initial eligibility criteria shall be adjusted each month based on the total amount of Sub-grants provided, targeting an aggregate amount of disbursements in an amount equivalent to DEM 5,000,000 per month. The initial eligibility criteria and monthly adjustments are to be determined in a manner satisfactory to the Administrator.

4. The eligibility criteria and Sub-grant amounts shall be publicly announced. The eligible households may apply to the social affairs sections of Municipalities for Sub-grants. Applications shall be verified by the Municipalities through the information on income from pensions and all other available sources. The documentation to prove the eligibility criteria and the Sub-grant provided for each household shall be recorded and maintained for the purpose of monitoring the implementation of Part D of the Project. These records will be subject to annual review by the Administrator.

#### ANNEX TO SCHEDULE 4

#### Principal Terms and Conditions of the Subsidiary Loan Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 2 (a) of Part B of this Schedule 4.

A. Terms

1. The principal amount to be relent out of the proceeds of the Grant to a PFI under its respective Subsidiary Loan Agreement shall be denominated in DEM and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Loan shall be: (a) charged monthly, quarterly or semiannually, on the principal amount thereof withdrawn and outstanding from time to time, interest at the Base Rate, as shall be adjusted from time to time in agreement with the Administrator; and (b) repaid in accordance with an amortization schedule pursuant to which each portion thereof utilized in the making of a Sub-loan shall have a maturity calculated to conform to the amortization schedule applicable to such Sub-loan. For purposes of this Annex, Base Rate means LIBOR minus three percent (3%).

3. The right of a PFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a PFI, which the Federation, with the assistance of FBSA, pursuant to the arrangements referred to in paragraph 1(b) of Part B of this Schedule 4, shall have been determined, and the Bank shall have agreed, that such PFI:

(a) is duly established and licensed by FBSA to operate in the Federation;

(b) except as otherwise agreed with the Administrator, has been in existence for at least two years;

(c) is operating pursuant to investment and lending policies and procedures which the Administrator and FBSA shall have judged acceptable, and has undertaken to maintain said policies and procedures;

(d) except as otherwise agreed with the Administrator, has capital of at least DEM 2,500,000 or has a plan acceptable to the Administrator and the FBSA to achieve minimum capital in accordance with applicable prudential regulations; and

(e) is in compliance with applicable prudential regulations as determined by the FBSA.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

(a) carry out activities under Part B of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (c) hereof, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in the Attachment to this Annex; (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Recipient and the Administrator, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part B of the Project; (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of the Federation; and (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with procedures satisfactory to the Administrator and the Federation;

(c) maintain, with staff and other resources and terms of reference, satisfactory to the Administrator and the Federation: (i) a credit committee to be

responsible for the evaluation and approval of Sub-loan applications; and (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects;

(d) (i) exchange views with, and furnish all such information to the Administrator or the PCU, as may be reasonably requested by the Administrator, the Federation, or the PCU, with regard to the progress of its activities under Part B of the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of Part B of the Project; and (ii) promptly inform the Administrator and the PCU of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;

(e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; (ii) have its 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; (iii) furnish to the Administrator, as soon as available, but in any case not later than six months after the end of each such year, certified copies of said financial statements and accounts for such year as so audited, and the report of such audit by said auditors in such scope and detail as the Administrator shall have reasonably requested; and (iv) 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; and

(f) assume a portion of the credit risk of each Sub-loan, as determined pursuant to guidelines acceptable to the Administrator, in the event the Beneficiary of the respective Sub-loan fails to repay all amounts due on the Sub-loan.

#### ATTACHMENT TO THE ANNEX TO SCHEDULE 4

#### Terms and Conditions of the Sub-loans

The provisions of this Attachment shall apply for the purposes of paragraph 2 (b) (i) of Part B of the Annex to this Schedule 4.

1. The principal amount of each Sub-loan made out of the proceeds of the Grant allocated from time to time to Category (3) of the table set forth in paragraph 1 of Schedule 1 to this Agreement shall: (a) be denominated in DEM, and be the equivalent in DEM (determined as of the date or respective dates of withdrawal from the Grant Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and works financed out of such proceeds for Sub-loans under Part B of the Project; and (b) not exceed the equivalent of DEM 300,000.

2. Each Sub-loan shall be: (a) charged monthly, quarterly or semiannually, on the principal amount thereof withdrawn and outstanding from time to time, interest at the Base Rate as defined in paragraph A.2 of the Annex to this Schedule 4, plus a margin not to exceed seven percent (7%); (b) made for a period of not more than two years, but not less than two months; (c) repaid, in respect of interest on the outstanding principal balance of the Sub-loan, monthly, quarterly or semi-annually as determined by the PFI in accordance with its investment and lending policies; and (d) repaid, in respect of the principal balance of the Sub-loan disbursed and outstanding in a single maturity.

3. No expenditures for goods required for a Sub-project shall be eligible for financing out of the proceeds of the Grant unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Administrator and such expenditures shall have been made not earlier than 180 days prior to the date on which the Administrator shall have received the application and information required under paragraph 4 (a) of this Attachment in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Administrator shall have authorized withdrawals from the Grant Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Administrator shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by each respective PFI in an amount to be

financed out of the proceeds of the Grant which shall not exceed the sum determined from time to time by the Administrator and notified to the Federation and each such respective PFI.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the Administrator for approval, the PFI shall furnish to the Administrator, through the PCU, an application, in form satisfactory to the Administrator, together with: (i) a description of the Beneficiary; (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Grant; (iii) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and (iv) any such other information as the Administrator shall reasonably request.

(b) Each request for authorization to make withdrawals from the Grant Account in respect of a free-limit Sub-loan shall contain: (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Grant; and (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Administrator not later than June 30, 1997.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the PFI making the Sub-loan, on the basis of guidelines acceptable to the Administrator, that:

(a) except as otherwise agreed with the Administrator, it has been in existence for at least two years;

(b) it is engaged in agro-processing, manufacturing or other economic activity that supports the restoration of food processing and industrial production;

(c) it is a private enterprise or has a plan to become a private enterprise; and

(d) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with guidelines satisfactory to the Administrator, to be:

(a) technically feasible and economically, financially and commercially viable, with an expected financial rate of return of not less than fifteen percent (15%);

(b) capable of being implemented and made operational within a period of not more than six months; and

(c) in compliance with environmental standards satisfactory to the Administrator and in compliance with all applicable laws and regulations of the Federation relating to health, safety and environmental protection.

7. Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Federation and the Administrator, including the right to:

(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economical, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that the goods, to be financed out of the proceeds of the Grant, be procured in accordance with the provisions of Schedule 3 to this Agreement, and be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Administrator or the PCU on behalf of the Federation if the Administrator, the Federation, or the PCU shall so request,

the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Administrator;

(f) obtain all such information as the Administrator, the Federation, or the PCU shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Grant upon failure by such Beneficiary to perform its obligations under its contract with the PFI.

#### SCHEDULE 5

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Category" means Categories (1) through (6) 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 Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement, provided, however, that notwithstanding the provisions of paragraph 3 (b) of the Attachment to the Annex to Schedule 4 of this Agreement, payments for expenditures to be financed out of the proceeds of free-limit Sub-loans may be made out of the Special Account before the Administrator shall have authorized withdrawals from the Grant Account in respect thereof. Such expenditures, however, shall qualify as eligible expenditures only if the Administrator shall subsequently authorize such withdrawals; and

(c) the term "Authorized Allocation" means an amount equivalent to \$5,000,000 to be withdrawn from the Grant 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 Administrator 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 Recipient shall furnish to the Administrator 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 Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit in the Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient 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 Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Administrator from the Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.03 of this Agreement;

(b) if the Recipient shall have failed to furnish to the Administrator within the period of time specified in Section 3.04 (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 Special Account;

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Category minus the total amount of all outstanding special commitments entered into by the Administrator 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 Loan Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Category shall follow such procedures as the Administrator shall specify by notice to the Recipient. 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 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 Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the 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 Special Account shall be made until the Recipient 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 Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

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

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





