

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7842-BA

Loan Agreement

(Sarajevo Waste Water Project)

between

BOSNIA AND HERZEGOVINA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated March 17, 2010

LOAN NUMBER 7842-BA

LOAN AGREEMENT

Agreement dated March 17, 2010, between BOSNIA AND HERZEGOVINA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II - LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of twenty three million six hundred thousand Euros (EUR 23,600,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.

- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.
- 2.07. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management: (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency; (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate to a Fixed Rate, or vice versa; and (iii) the setting of limits on the Variable Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.
- (c) Promptly following the Execution Date for an Interest Rate Cap or Interest Rate Collar for which the Borrower has requested that the premium be paid out of the proceeds of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amounts required to pay any premium payable in accordance with Section 4.05 (c) of the General Conditions up to the amount allocated from time to time for the purpose in the table in Section IV of Schedule 2 to this Agreement.

ARTICLE III - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article V of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) The Project Implementing Entity shall have failed to perform any of its obligations under the Subsidiary Loan Agreement.
 - (b) The Sarajevo Canton shall have failed to perform any of its obligations under the Subsidiary Financing Agreement.
 - (c) 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 Project Implementing Entity shall be able to perform 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 the Sarajevo Canton shall be able to perform its obligations under the Subsidiary Financing Agreement.
 - (e) The Subsidiary Loan Agreement or the Subsidiary financing Agreement shall have been amended without prior approval of the Bank.
 - (f) VIK shall have failed to perform any of its obligations under the Project Implementation Agreement.
 - (g) VIK's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of VIK to perform any of its obligations under the Project Implementation Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely that any event specified in paragraphs (a), (b), (e), (f) and (g) of Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) the Project Agreement has been executed on behalf of the Bank and the Project Implementing Entity on terms and conditions satisfactory to the Bank;
- (b) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and the Project Implementing Entity, on terms and conditions satisfactory to the Bank;
- (c) the Subsidiary Financing Agreement has been executed on behalf of the Project Implementing Entity and the Sarajevo Canton, on terms and conditions satisfactory to the Bank;
- (d) the Project Implementation Agreement has been executed on behalf of the Project Implementing Entity, the Sarajevo Canton and VIK, on terms and conditions satisfactory to the Bank; and
- (e) the Project Implementing Entity has adopted the Operational Manual in form and substance satisfactory to the Bank.

5.02. The Additional Legal Matters consist of the following.

- (a) the Project Agreement has been duly authorized or ratified by the Project Implementing Entity and is legally binding upon said Entity in accordance with its terms;
- (b) the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and the Project Implementing Entity and is legally binding upon the Borrower and the Project Implementing Entity in accordance with its terms;
- (c) the Subsidiary Financing Agreement has been duly authorized or ratified by the Project Implementing Entity and the Sarajevo Canton and is legally binding upon the Project Implementing Entity and the Sarajevo Canton in accordance with its terms; and
- (d) the Project Implementation Agreement has been duly authorized or ratified by the Project Implementing Entity, the Sarajevo Canton and VIK and is legally binding upon the Project Implementing Entity, the Sarajevo Canton and VIK in accordance with its terms.

5.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is the Minister of Finance and Treasury of Bosnia and Herzegovina.

6.02. The Borrower's Address is:

Ministry of Finance and Treasury
Trg BiH 1
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:

(387-33) 202-930

6.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

1-202-477-6391

AGREED at Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Dragan Vrankic

Authorized Representative

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By /s/ Marco Mantovanelli

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to improve the living conditions of populations in the areas covered by VIK and in downstream riverside communities by: (a) reducing the populations' exposure to, and reliance on, highly polluted water from the Miljacka and Bosna rivers; and (b) improving the efficiency of the waste water collection network in the Sarajevo Canton.

The Project consists of the following parts:

Part A. High Priority Infrastructure Rehabilitation

Carrying out a program of works, including the provision of goods, equipment and consultants' services, for:

1. the repair and replacement of primary and secondary sewers in the Sarajevo Canton; and
2. the rehabilitation of the Sarajevo waste water treatment plant, including:
 - (a) the rehabilitation of pumping station for raw waste water, screening station, aerated grit chamber, substation and air blower room;
 - (b) the rehabilitation of primary sedimentation, primary sludge pumping station, sludge thickener and sludge pumping station;
 - (c) the rehabilitation of sludge digester, sludge holding tank, sludge pumping station and sludge dehydration facility; and
 - (d) the rehabilitation of sand grit removal facilities.

Part B. Institutional Development Support

Provision of technical assistance to VIK for capacity building and institutional strengthening, including:

1. Institutional strengthening for improving financial management capacity and operational efficiency to enhance long-term financial viability; and
2. Support to help preparation of feasibility studies, technical designs, construction supervision and other technical studies for follow-up investments in water and waste rehabilitation.

Part C. Project Management

Support to the PMT and PIT in the management, implementation, monitoring and evaluation of the Project, including procurement and financial management, through the provision of technical assistance (including the carrying out of audits under the Project), training and goods and the financing of Operating Costs.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

The Borrower shall, and shall cause the Project Implementing Entity to carry out the Project in accordance with the following institutional and other arrangements:

1. The Project shall be implemented by the PMT which shall comprise a PMT manager, a procurement manager and a procurement officer, a financial manager and other experts as needed for the implementation of the Project. The PMT shall be responsible for Project management, including procurement, financial management, disbursements, monitoring and evaluation and reporting arrangements. The PMT shall also ensure compliance of all Project activities with the Bank's social and environmental safeguards.
2. The PIT, established within VIK and which shall comprise an engineer assisting the PMT procurement officer in reviewing technical specifications and certifying completion of works and a financial officer reporting to the Sarajevo Canton and the PMT on VIK's financial performance, shall be responsible for day-to-day management and technical supervision of the Project in coordination with the PMT. The PIT shall handle procurement, financial and social and environmental aspects of the Project, which shall subsequently be reviewed and cleared by the PMT to ensure compliance with Bank guidelines and procedures.

B. Implementation Covenants and Safeguards

1. The Borrower shall maintain the PMT, and shall cause the Project Implementing Entity to maintain the PIT at all times during Project implementation with terms of reference and resources satisfactory to the Bank, and with competent staff in adequate numbers.
2. The Borrower shall, and shall cause the Project Implementing Entity, the PMT and the PIT to:
 - (a) duly perform all obligations under the Operational Manual, the Environmental Impact Assessment and the Environmental Management Plan in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and

- (b) not amend or waive, or permit to be amended or waived the Operational Manual, the Environmental Impact Assessment or the Environmental Management Plan or any provisions of any one thereof, except with the prior written approval of the Bank.
- 3. The Borrower shall, and shall cause the Project Implementing Entity, the PMT and the PIT to ensure that no land acquisition, relocation of population or temporary and/or permanent restrictions on access to economic resources shall be required under the Project.

C. Subsidiary Loan

- 1. To facilitate the carrying out and financing of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity under a subsidiary loan agreement between the Borrower and the Project Implementing Entity, under the same terms and conditions as the Loan, approved by the Bank and including the Anti-Corruption Guidelines (“Subsidiary Loan Agreement”), for on-lending by the Project Implementing Entity to the Sarajevo Canton, for the benefit of VIK, on terms and conditions set forth in Part D of this Section I.
- 2. The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.

D. Subsidiary Financing

- 1. The Borrower shall cause the Project Implementing Entity to make the proceeds of the Subsidiary Loan available to the Sarajevo Canton, for the benefit of VIK, for purposes of carrying out the Project, under a subsidiary financing agreement between the Project Implementing Entity and the Sarajevo Canton, under the same terms and conditions as the Subsidiary Loan, approved by the Bank and including the Anti-Corruption Guidelines (“Subsidiary Financing Agreement”).
- 2. The Borrower shall cause the Project Implementing Entity to exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Project Implementing Entity, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall, and shall cause the Project Implementing Entity not to assign, amend, abrogate or waive the Subsidiary Financing Agreement or any of its provisions.

E. Anti-Corruption

The Borrower shall, and shall cause the Project Implementing Entity, the PMT and the PIT to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation**A. Project Reports**

1. The Borrower, through the PMT, shall, and shall cause the Project Implementing Entity, through the PIT, to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Financial Management, Financial Reports and Audits

1. The Borrower, through the PMT, shall, and shall cause the Project Implementing Entity, through the PIT, to maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Borrower, through the PMT, shall, and shall cause the Project Implementing Entity, through the PIT, to prepare and furnish to the Bank, as part of the Project Report, not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. In addition, the Borrower shall cause VIK to have its Financial Statements audited in accordance with local laws and regulations acceptable to the Bank. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used.

<u>Procurement Methods</u>	
(a)	National Competitive Bidding subject to the modifications set forth in paragraph 3 below.
(b)	Direct Contracting
(c)	Shopping
(d)	Supply and Installation of Plant and Equipment in accordance with Section 2 of the Procurement Guidelines

3. Procedures for National Competitive Bidding shall be carried out by using standard bidding documents acceptable to the Bank, subject to the following provisions:

(1) Registration

- (a) bidding shall not be restricted to pre-registered firms;
- (b) where registration is required, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification; and
- (c) foreign bidders shall not be precluded from bidding. If a registration process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register.

(2) Advertising

Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.

(3) Pre-qualification

When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience and technical and financial requirements shall be explicitly stated in the pre-qualification documents.

(4) Participation by Government-owned enterprises

Government-owned enterprises in Bosnia and Herzegovina, including those in the Federation and Republika Srpska, shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

(5) Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Bank.

(6) Bid Opening and Bid Evaluation

- (a) bids shall be opened in public, immediately after the deadline for submission of bids;
- (b) evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents; and
- (c) contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

(7) Price Adjustment

Civil works contracts of long duration (more than 18 months) shall contain an appropriate price adjustment clause.

(8) Rejection of Bids

All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.

(9) Securities

- (a) bid security and performance security should follow the generally accepted practice used in the local market;
- (b) alternative methods such as bid securing declaration may be acceptable, in which case the Borrower may require bidders to sign a declaration accepting that if they withdraw or modify their bids during the period of validity or they are awarded the contract and they fail to sign the contract or to submit a performance security before the deadline defined in the bidding documents, the bidder will be suspended for bidding in any contract with the implementing unit; and
- (c) no advance payment shall be made to contractors without a

suitable advance payment security. These securities shall be included in the bidding documents in a text and format acceptable to the Bank.

(10) Right to inspect and audit

Each contract financed out of the proceeds of the Loan shall provide that the suppliers, contractors and subcontractors shall permit the Bank, at its request, to inspect their accounts and records relating to the procurement and performance of the contract and to have said accounts and records audited by auditors appointed by the Bank. The deliberate and material violation by the supplier, contractor or subcontractor of such provision may amount to obstructive practice.

(11) Fraud and Corruption

The Bank shall declare a firm or individual ineligible, either indefinitely or for a stated period, to be awarded a contract financed by the Bank, if it at any time determines that the firm or individual has, directly or through an agent, engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in competing for, or in executing, a contract financed by the World Bank Group.

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Methods	
(a)	Quality based Selection
(b)	Selection under a Fixed Budget
(c)	Consultants Qualifications
(d)	Least-Cost Selection
(e)	Single Source Selection
(f)	Individual Consultant

D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds**A. General**

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan ("Category"), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in Euros)	Percentage of Expenditures to be financed
(1) Goods and Works	23,000,000	95%
(2) Consultants' services (including the carrying out of audits under the Project) and Operating Costs	541,000	100%
(3) Front-end Fee	59,000	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(4) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.07(c) of this Agreement in accordance with Section 4.05(c) of the General Conditions

TOTAL AMOUNT	<u>23,600,000</u>	
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B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is November 30, 2015.

SCHEDULE 3**Amortization Schedule**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
June 15, 2015	1.18%
December 15, 2015	1.22%
June 15, 2016	1.26%
December 15, 2016	1.31%
June 15, 2017	1.35%
December 15, 2017	1.40%
June 15, 2018	1.45%
December 15, 2018	1.50%
June 15, 2019	1.55%
December 15, 2019	1.61%
June 15, 2020	1.66%
December 15, 2020	1.72%
June 15, 2021	1.78%
December 15, 2021	1.84%
June 15, 2022	1.91%
December 15, 2022	1.98%
June 15, 2023	2.05%
December 15, 2023	2.12%
June 15, 2024	2.19%
December 15, 2024	2.27%
June 15, 2025	2.35%
December 15, 2025	2.43%
June 15, 2026	2.51%
December 15, 2026	2.60%
June 15, 2027	2.69%
December 15, 2027	2.79%

Principal Payment Date	Installment Share (Expressed as a Percentage)
June 15, 2028	2.89%
December 15, 2028	2.99%
June 15, 2029	3.09%
December 15, 2029	3.20%
June 15, 2030	3.31%
December 15, 2030	3.43%
June 15, 2031	3.55%
December 15, 2031	3.67%
June 15, 2032	3.80%
December 15, 2032	3.93%
June 15, 2033	4.07%
December 15, 2033	4.21%
June 15, 2034	4.36%
December 15, 2034	4.78%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
- (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.
3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each

Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
- 4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
- 5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Environmental Impact Assessment” means the environmental impact assessment dated October 26, 2009, prepared by VIK and satisfactory to the Bank, describing possible environmental impacts of the Project and proposed mitigation measures, and including the Environmental Management Plan.
5. “Environmental Management Plan” means the environmental management plan dated October 26, 2009, prepared by VIK and satisfactory to the Bank, describing the social and environmental mitigation, monitoring and institutional measures under the Project, and including an implementation schedule and the record of the public consultations in relation to said Plan.
6. “FM Manual” means the Financial Management Manual prepared by the Project Implementing Entity for the Project, as an integral part of the Operational Manual and satisfactory to the Bank, setting out the financial management and internal control policies and procedures for the financial management of the Project, including accounting, auditing and reporting requirements.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modifications set forth in Section II of this Appendix.
8. “MOFTER” means the Borrower’s Ministry of Foreign Trade and Economic Relations, and includes any successor thereto.
9. “Operating Costs” means the reasonable and necessary incremental expenditures related to the operation of the PMT and PIT on account of Project implementation, management, coordination, and monitoring and evaluation, as approved by the Bank on the basis of budgets acceptable to the Bank, and

including, *inter alia*, the costs of: (i) maintenance and operation of equipment and vehicles used for the management of the Project; (ii) capacity building, training and salaries for PMT and PIT staff hired for the purposes of the Project, other than civil servants' salaries and salaries of VIK staff; (iii) travel costs and per diems; (iv) consumable office supplies; (v) communication, printing and publications; and (vi) costs of translation and interpretation.

10. "Operational Manual" means the manual adopted by the Project Implementing Entity in accordance with Section 5.01 (e) of this Agreement, setting forth the operational and administrative responsibilities, procedures and rules for the implementation of the Project and including the FM Manual.
11. "PMT" means the Project management team established within MOFTER.
12. "PIT" means the Project implementation team within VIK.
13. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October 2006.
14. "Procurement Plan" means the Borrower's procurement plan for the Project, dated October 27, 2009 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
15. "Project Agreement" means the Project Agreement between the Bank and the Project Implementing Entity, executed in accordance with Section 5.01 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
16. "Project Implementing Entity" means the Federation of Bosnia and Herzegovina, a constitutive part of the Borrower, and includes any successor or successors thereto.
17. "Project Implementation Agreement" means the Project implementation agreement among the Project Implementing Entity, the Sarajevo Canton and VIK, executed in accordance with Section 5.01 (d) of this Agreement, setting forth VIK and PIT's responsibilities for Project management and implementation, including reporting, disbursement, procurement and financial management arrangements, as the same may be amended from time to time with the prior approval of the Bank, and such term includes all schedules and agreements supplemental to the Project Implementation Agreement.
18. "Sarajevo Canton" means the Sarajevo Canton, an administrative subdivision of the Federation.

19. “Subsidiary Financing” means the subsidiary financing provided by the Project Implementing Entity to the Sarajevo Canton under a Subsidiary Financing Agreement.
20. “Subsidiary Financing Agreement” means the subsidiary financing agreement between the Project Implementing Entity and the Sarajevo Canton, executed in accordance with Section 5.01 (c) of this Agreement, pursuant to which the Project Implementing Entity shall make the proceeds of the Subsidiary Loan available to the Sarajevo Canton for the benefit of VIK in the carrying out of the Project, as the same may be amended from time to time with the prior approval of the Bank, and such term includes all schedules and agreements supplemental to the Subsidiary Loan Agreement.
21. “Subsidiary Loan” means the subsidiary loan made by the Borrower to the Project Implementing Entity under a Subsidiary Loan Agreement.
22. “Subsidiary Loan Agreement” means the subsidiary loan agreement between the Borrower and the Project Implementing Entity, executed in accordance with Section 5.01 (b) of this Agreement, pursuant to which the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity for the carrying out of the Project, as the same may be amended from time to time with the prior approval of the Bank, and such term includes all schedules and agreements supplemental to the Subsidiary Loan Agreement.
23. “VIK” means Cantonal Public Utility Company "Water Supply and Sanitation" d.o.o. Sarajevo, a public company providing water supply and sanitation services in the Sarajevo Canton, owned by the Sarajevo Canton, established by a Decision of the Assembly of Sarajevo Canton (Decision on Harmonizing the Status of the Cantonal Public Utility Company “Water Supply and Sewage” Sarajevo with the Law on Public Companies of the Federation of Bosnia and Herzegovina, adopted in 2005 by the Assembly of Sarajevo Canton (Official Gazette of Sarajevo Canton, no. 30/05) and operating pursuant to the Law on Public Utilities of Sarajevo Canton, adopted in 2004 (Official Gazette of Sarajevo Canton, no. 31/04, with subsequent amendments in 2005 published in no. 21/05).
24. “VIK Legislation” means the legislation establishing and governing VIK (Decision of the Assembly of Sarajevo Canton - Decision on Harmonizing the Status of the Cantonal Public Utility Company “Water Supply and Sanitation” d.o.o Sarajevo, with the Law on Public Companies of the Federation of Bosnia and Herzegovina, adopted in 2005 by the Assembly of Sarajevo Canton (Official Gazette of Sarajevo Canton, no. 30/05) and Law on Public Utilities of Sarajevo Canton, adopted in 2004 (Official Gazette of Sarajevo Canton, no. 31/04, with subsequent amendments in 2005 published in no. 21/05).

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Paragraph (1) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

... (1) *Ineligibility*. The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”

2. The following term and definition set forth in the Appendix is modified or deleted as follows, and the following new term and definition is added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

The definition of the term “Conversion Date” is modified to read as follows:

“‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”