

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3954 BOS

Development Credit Agreement

(Urban Infrastructure and Service Delivery Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 3, 2004

Public Disclosure Authorized

CREDIT NUMBER 3954 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated November 3, 2004, between BOSNIA and HERZEGOVINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association):

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

(B) the Project will be carried out by the Borrower with the assistance of the Federation of Bosnia and Herzegovina and Republika Srpska;

(C) the Borrower will make the proceeds of the Credit provided under Article II of this Agreement available to the Federation of Bosnia and Herzegovina and to Republika Srpska, as set forth in this Agreement; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, as amended through October 6, 1999, with the following modification (the General Conditions), constitute an integral part of this Agreement: the text in Section 5.01 which reads "(a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b)" is deleted in its entirety.

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

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

(b) "Environmental Management Plans" means, collectively, the four environmental management plans, satisfactory to the Association, prepared and adopted by the Borrower on

April 13, 2004, setting forth the environmental mitigation and monitoring plans, implementation schedules, and institutional arrangements to be taken during the implementation and operation of the four Sub-projects to be undertaken by the Group A Utilities during the first year of Project implementation in order to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures, and referred to in paragraph 2 of Schedule 4 to this Agreement and sub-paragraph 2(c) of Schedule 1 to the Project Agreements (as hereafter defined);

(c) “Environmental Management Plan Framework” means the environmental management plan framework, entitled “Environmental Screening and Evaluation Procedures”, satisfactory to the Association, prepared and adopted by the Borrower on April 22, 2004, setting forth the environmental mitigation, monitoring and institutional measures to be taken during the implementation and operation of the Project to avoid or reduce adverse environmental impacts, and the actions needed to implement these measures, and referred to in paragraph 2 of Schedule 4 to this Agreement and sub-paragraph 2(c) of Schedule 1 to the Project Agreements;

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

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

(f) “Federation MOA” means the Ministry of Agriculture, Water Management and Forestry of the Federation, and includes any successor thereto;

(g) “Federation MOE” means the Ministry of Urban Planning and Environment of the Federation, and includes any successor thereto;

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

(i) “Federation Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower and the Federation pursuant to paragraph (c) of Section 3.01 of this Agreement pursuant to which the Borrower makes available to the Federation a part of the proceeds of the Credit for the carrying out of the Project, as the same agreement may be amended from time to time with the prior approval of the Association, and such term includes all schedules and agreements supplemental to the Federation Subsidiary Credit Agreement;

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

(l) “Group A Utilities” means, collectively, the Utilities in Banja Luka, Lukavac, and Posusje, including any change in such Utilities participating in the Project that may be made

by agreement from time to time between the Borrower and the Association, and “Group A Utility” means any of them;

(m) “Group B Utilities” means, collectively, the Utilities selected during the first year of Project implementation in accordance with the criteria established under the Operational Manual, including any change in such Utilities participating in the Project that may be made by agreement from time to time between the Borrower and the Association, and “Group B Utility” means any of them;

(n) “Group C Utilities” means, collectively, the Utilities in Stolac, Srebrenica and Vares, including any change in such Utilities participating in the Project that may be made by agreement from time to time between the Borrower and the Association, and “Group C Utility” means any of them;

(o) “Konvertible Marka” or “KM” means the lawful currency of the Borrower;

(p) “Operational Manual” means the manual, including the Project Implementation Plan, the Financial Management Manual, and the Environmental Management Plan Framework, referred to in paragraph 2 of Schedule 1 to the Project Agreements, satisfactory to the Association, to be adopted by the Borrower, the Federation and by Republika Srpska, respectively, and setting out the operational and administrative procedures for the implementation of the Project, including the selection, approval, processing, financing, implementation, monitoring, evaluation and supervision of Sub-projects, as the same may be amended from time to time by agreement between the Association and the Borrower;

(q) “Participating Canton” means a Canton in the Federation which is to participate in the carrying out of the Project pursuant to a Subsidiary Financing Agreement (as hereafter defined) between the Federation and such Canton under Section 2.01 (b) of the Federation Project Agreement, including any change in such Cantons participating in the Project that may be agreed from time to time among the Borrower, the Association and the Federation;

(r) “Participating Federation Utility” means a Utility (as hereafter defined) operating in the Federation which is to participate in the carrying out of the Project pursuant to a Subsidiary Financing Agreement between the Federation and such Utility under Section 2.01 (b) of the Federation Project Agreement, including any change in such Utilities participating in the Project that may be agreed from time to time among the Borrower, the Association and the Federation;

(s) “Participating Municipality” means a municipality in RS which is to participate in the carrying out of the Project pursuant to a Subsidiary Financing Agreement between RS and such municipality under Section 2.01 (b) of the RS Project Agreement, including any change in such municipalities participating in the Project that may be made by agreement from time to time among the Borrower, the Association and RS;

(t) “Participating RS Utility” means a Utility operating in RS which is to participate in the carrying out of the Project pursuant to a Subsidiary Financing Agreement between RS and such Utility under Section 2.01 (b) of the RS Project Agreement, including any change in such Utilities participating in the Project that may be agreed from time to time among the Borrower, the Association and RS;

(u) “Participating Utility” means a Participating Federation Utility or a Participating RS Utility, as the case may be, and “Participating Utilities” means, collectively, the Participating Federation Utilities and the Participating RS Utilities;

(v) “PITs” means the Project Implementation Teams established and to be established within the Participating Utilities, the Participating Municipalities, and the Participating Cantons, as the case may be, comprised of a qualified Procurement Officer and a Financial Officer, and such other qualified personnel as may be necessary for Project purposes, employed under terms of reference satisfactory to the Association if the salary of any such person will be financed under the Project, and which Teams will be responsible for the day-to-day implementation and administration of the Sub-projects (as hereafter defined), and “PIT” means any of them, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(w) “PMT” means the Project Management Team established within the Ministry of Foreign Trade and Economic Relations of the Borrower, comprised of a qualified PMT Head satisfactory to the Association, as well as a qualified Procurement Manager, Procurement Officer, Financial Manager and Assistant, and such other qualified personnel as may be necessary for Project purposes, including, without limitation, a specialist consultant on urban management, as well as a specialist on water supply and sanitation, all of whose services will be retained for the entire implementation of the Project, and which Team will be responsible for the overall coordination, management and implementation of the Project, including responsibility for financial management actions, and the clearance, management and supervision of Project procurement activities, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time;

(x) “Procurement Plan” means the Borrower’s procurement plan, dated May 7, 2004, covering the initial 18-month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of paragraph (b) of Section 3.02 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

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

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

(aa) “RS MOA” means the Ministry of Agriculture, Water Management and Forestry of Republika Srpska, and includes any successor thereto;

(bb) “RS MOE” means the Ministry of Urbanism, Civil Works, and Environment of Republika Srpska, and includes any successor thereto;

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

(dd) “RS Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower and RS pursuant to paragraph (d) of Section 3.01 of this Agreement pursuant to which the Borrower makes available to RS a part of the proceeds of the Credit for the carrying out of the Project, as the same agreement may be amended from time to time with the prior approval of the Association, and such term includes all schedules and agreements supplemental to the RS Subsidiary Credit Agreement;

(ee) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(ff) “Sub-project” means for: (i) an Urban Management Subsidiary Financing (as hereafter defined), a project to facilitate the preparation of urban management development plans, based on effective planning and prioritization to facilitate investments for infrastructure development, and to be carried out by a Participating Canton or a Participating Municipality in Banja Luka, Livno, Mostar, Sarajevo, Tuzla, and Srebrenica, under Part B of the Project; and (ii) a Water Supply and Sanitation Efficiency Subsidiary Financing (as hereafter defined), a least-cost, priority water supply or sanitation project based upon system improvement, lowering energy requirements, and related investments, and to be carried out by a Group A Utility, a Group B Utility, or a Group C Utility, as the case may be, under Part C of the Project;

(gg) “Subsidiary Credit” means a credit provided by the Borrower to each Entity under a Subsidiary Credit Agreement (as hereafter defined) from the proceeds of the Credit;

(hh) “Subsidiary Credit Agreements” means, collectively, the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement;

(ii) “Subsidiary Financing” means a loan provided or to be provided by an Entity to a Participating Utility, a Participating Canton, or a Participating Municipality, as the case may be, under a Subsidiary Financing Agreement (as hereafter defined) from the proceeds of the Credit provided to such Entity under a Subsidiary Credit Agreement;

(jj) “Subsidiary Financing Agreement” means the agreement to be entered into:

- (i) in the case of the Federation, between the Federation and a Participating Utility, or a Participating Canton, as the case may be; and
- (ii) in the case of Republika Srpska, among Republika Srpska, a Participating Utility and the relevant municipality for such Participating Utility, or between Republika Srpska and a Participating Municipality, as the case may be;

in each case pursuant to paragraph (e) of Section 3.01 of this Agreement and referred to in paragraph (b) of Section 2.01 of the Project Agreements, as the same agreement may be amended from time to time with the prior approval of the Association, and such term includes all schedules and agreements supplemental to each Subsidiary Financing Agreement; and the term “Subsidiary Financing Agreements” means all said agreements collectively;

(kk) “Urban Management Subsidiary Financing” means a Subsidiary Financing made or proposed to be made to a Participating Canton or a Participating Municipality in Banja Luka, Livno, Mostar, Sarajevo, Tuzla, and Srebrenica, as the case may be, for a Sub-project, under Part B of the Project, out of the proceeds of a Subsidiary Credit;

(ll) “Utility” means a local body in either Entity that is responsible for the provision of water supply and sanitation within the relevant geographical area, and “Utilities” means more than one Utility; and

(mm) “Water Supply and Sanitation Efficiency Subsidiary Financing” means a Subsidiary Financing made or proposed to be made to a Group A Utility, a Group B Utility, or a Group C Utility, as the case may be, for a Sub-project, under Part C of the Project, out of the proceeds of a Subsidiary Credit.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000).

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

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

Section 2.03. The Closing Date shall be December 15, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of June 30 immediately preceding the accrual date and at such other rates as may be set from time

to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. The Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each April 15 and October 15, commencing October 15, 2014, and ending April 15, 2024. Each installment shall be five percent (5%) of such principal amount.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through the PMT with due diligence and efficiency and in conformity with appropriate administrative, urban management, financial, technical and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the implementation program set forth in Schedule 4 to this Agreement and the Operational Manual, and shall cause the PMT, as well the Entities and the PITs, to perform their respective obligations under the Project in accordance with the provisions of the implementation program set forth in Schedule 4 to this Agreement and the Operational Manual, as well as the Federation Project Agreement and the RS Project Agreement, respectively.

(c) The Borrower shall make available to the Federation, from the proceeds of the Credit, an amount equivalent to nine million seven hundred thousand Special Drawing Rights (SDR 9,700,000), and, for such purposes, the Borrower shall enter into a subsidiary credit agreement with the Federation (the Federation Subsidiary Credit Agreement) under terms and

conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (ii) the Borrower shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iii) the Borrower shall charge the Federation a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (iv) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.

(d) The Borrower shall make available to Republika Srpska, from the proceeds of the Credit, an amount equivalent to four million one hundred thousand Special Drawing Rights (SDR 4,100,000), and, for such purposes, the Borrower shall enter into a subsidiary credit agreement with Republika Srpska (the RS Subsidiary Credit Agreement) under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (ii) the Borrower shall charge Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iii) the Borrower shall charge Republika Srpska a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (iv) the principal amount of the Subsidiary Credit shall be repayable in KM and shall be the equivalent in Euro (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for the Project.

(e) The proceeds of the Subsidiary Credits shall be relent by each Entity to its respective Participating Utilities, Participating Cantons, and Participating Municipalities, as the case may be, under a Subsidiary Financing Agreement to be entered into between the relevant Entity and the relevant Participating Utility, Participating Canton, and Participating Municipality, as the case may be, under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

- (i) the Subsidiary Financing provided by the Entity to the relevant Participating Utility, Participating Canton, or Participating Municipality under the Subsidiary Financing Agreement to carry out the Project shall be denominated in KM;
- (ii) the term of the Subsidiary Financing shall be 20 years, including a 8-year grace period;
- (iii) the Entity shall charge the relevant Participating Utility, Participating Canton, and Participating Municipality a commitment charge at a rate equal to the rate payable by the Borrower under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Financing not withdrawn from time to time;
- (iv) the Entity shall charge the relevant Participating Utility, Participating Canton, and Participating Municipality a service charge on the principal amount of the Subsidiary Financing withdrawn and outstanding from time to time at a rate equal to two percent (2%) per annum; and
- (v) the principal amount of the Subsidiary Financing shall be repayable in KM.

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

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

(b) The Borrower shall update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than twelve (12) months after the date of the preceding Procurement Plan, for the Association's approval. Promptly following each approval by the Association of the updated Procurement Plan, the Borrower shall provide a copy of such update to each of the Entities.

(c) In respect of the procurement of goods, works and consultants' services required for the Project and to be awarded on the basis of National Competitive Bidding, the following provisions of this paragraph (c) shall apply:

(i) Registration

(A) Bidding shall not be restricted to pre-registered firms.

(B) Where registration is required, bidders shall be allowed a reasonable time to complete the registration process, and 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.

(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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) Bidding Documents

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

(vi) 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.
- (C) Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

(vii) Price Adjustment

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

(viii) Rejection of Bids

- (A) All bids shall not be rejected and new bids solicited without the Association's prior concurrence.
- (B) When the number of bids received is less than three, re-bidding shall not be carried out without the Association's prior concurrence.

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

Section 3.04. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.05. The Borrower shall take, or cause to be taken, all measures necessary to ensure that:

(a) the Sub-projects are implemented in a timely manner in full compliance with the provisions of the Environmental Management Plans and the Environmental Management Plan Framework, as the case may be; and

(b) the PMT is maintained and adequately staffed throughout the implementation of the Project, satisfactory to the Association.

ARTICLE IV

Financial Covenants

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

(b) The Borrower, through the PMT, shall:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at

least one (1) year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 4 of Schedule 4 to this Agreement, the Borrower, through the PMT, shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

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

be able to perform its obligations under its respective Project Agreement or Subsidiary Credit Agreement, or the Operational Manual, or that the PMT or any of the PITs shall be able to perform their respective obligations under this Agreement, the Operational Manual, or any of the Subsidiary Financing Agreements, as the case may be;

(c) the Borrower, either Entity, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PMT or any of the PITs, or for the suspension of any of their respective activities; and

(d) the Operational Manual shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely, in the opinion of the Association, the carrying out of the Project or the realization of its objective.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraphs (a), (c) and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

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

(a) the Federation Project Agreement and the RS Project Agreement have been executed on behalf of the Association and each Entity, respectively, on terms and conditions satisfactory to the Association;

(b) the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement have been executed on behalf of the Borrower and each Entity, respectively, on terms and conditions satisfactory to the Association;

(c) a Subsidiary Financing Agreement has been executed on behalf of an Entity and a Participating Utility, on terms and conditions satisfactory to the Association;

(d) a Subsidiary Financing Agreement has been executed on behalf of an Entity and a Participating Canton or a Participating Municipality, as the case may be, on terms and conditions satisfactory to the Association; and

(e) the Operational Manual, satisfactory to the Association, has been adopted by the Borrower and each of the Entities.

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

(a) that the Federation Project Agreement and the RS Project Agreement each have been duly authorized or ratified by the Federation and RS, as the case may be, and is legally binding on the relevant Entity in accordance with its terms; and

(b) that the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement referred to in paragraph (b) of Section 6.01 above each have been duly authorized or ratified by the Borrower and the relevant Entity, and is legally binding upon the Borrower and the relevant Entity in accordance with its terms; and

(c) that the Subsidiary Financing Agreements referred to in paragraphs (c) and (d) of Section 6.01 above each have been duly authorized or ratified by the relevant Entity and the relevant Participating Utility, Participating Canton and Participating Municipality, as the case may be, and is legally binding upon the relevant Entity and the relevant Participating Utility, Participating Canton and Participating Municipality in accordance with its terms.

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

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Treasury of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Facsimile:

(387-33) 471-822

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

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

BOSNIA AND HERZEGOVINA

By

/s/ Ljerka Maric
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Dirk Reinermann
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	7,150,000	80%
(2) Goods	1,200,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 80% of local expenditures for other items procured locally
(3) Consultants' services and training	2,300,000	100% for foreign consulting firms and foreign individual consultants, and 80% for local consulting firms and local individual consultants, and 100% for training
(4) Incremental operating costs	350,000	100% until December 31, 2006, and 90% thereafter
(5) Audits	200,000	100%
(6) Unallocated	<u>2,600,000</u>	
TOTAL	<u>13,800,000</u>	

2. For the purposes of this Schedule:

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

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

(c) the term “Incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the PMT and the PITs on account of Project implementation, management and monitoring, including the cost of salaries of PITs’ staff, office equipment and supplies, office equipment maintenance and repair, vehicle operation and repair, local and international travel, communication, translation and interpretation, and other miscellaneous costs, as may be agreed with the Association; and

(d) the term “training” means training activities (other than consultants’ services) to be carried out under the Project, including the reasonable and necessary travel and visa expenses incurred by participants in training workshops and study tours, as well as lodging, subsistence, local and international per diem allowances, registration, tuition and facilitators’ fees, minor organizational expenses (including costs of stationery, handouts and training materials), and other expenditures directly relating to the training workshop and study tour activity, as may be agreed with the Association.

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

(a) payments made for expenditures prior to the date of this Agreement;

(b) for expenditures incurred in respect of a Sub-project by a Participating Utility, a Participating Canton or a Participating Municipality until the relevant Participating Utility, Participating Canton or Participating Municipality has concluded a Subsidiary Financing Agreement with the relevant Entity, satisfactory to the Association; and

(c) Categories (1) and (2) allocated to Part B of the Project unless:

(i) an urban management development plan, satisfactory to the Association, has been approved for the relevant Participating Municipality by the RS MOE; and

(ii) an urban management development plan, satisfactory to the Association, has been approved for the relevant Participating Canton by its respective Cantonal Ministry of Urban Planning and Environment;

except that withdrawals up to □75,000 equivalent may be made available to Participating Cantons and Participating Municipalities that have not yet begun the preparation of an urban management development plan, once terms of reference for such a plan, satisfactory to the Association, have been prepared, and to Participating Cantons and Participating Municipalities that have commenced the preparation of an urban management development plan, once an executive summary of such plan, satisfactory to the Association, has been prepared.

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) improve the availability, quality and reliability of delivery of basic municipal services, in particular, water supply and sanitation; (ii) strengthen the ability of Cantonal and municipal governments to improve management and institutional capacity for infrastructure development through urban management development plans; and (iii) foster deeper social cohesion through improvements in overall living conditions.

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

Part A: Institutional Strengthening

1. Provision of and training on financial management for institutional strengthening and capacity building.
2. Support for the preparation of annual business plans for each Utility due in October of each year, starting with calendar year 2004.
3. Provision of training to the Entities, Participating Cantons, and Participating Municipalities for the development and preparation of urban management development plans.
4. Support for the preparation of a study to build institutional capacity within the different levels of government of the Borrower, the Federation and Republika Srpska.

Part B: Urban Management Development Plans and Investments

Financing of Sub-projects, through the provision of Subsidiary Financings to Participating Cantons and Participating Municipalities, to facilitate:

1. the development and preparation of urban management development plans, based upon an urban database and information system; and
2. the development of a strategic urban planning process, based upon more effective planning, prioritization and investments in selected service sectors, based upon conclusions of the strategic urban planning process.

Part C: Investments for Improved Efficiency

Financing of Sub-projects, through the provision of Subsidiary Financings to Group A Utilities, Group B Utilities, and Group C Utilities, to facilitate least-cost, priority water supply and sanitation investments, based on system improvement, lowering energy requirements, and related investments to Participating Utilities.

Part D: Engineering Services

Engineering services for:

1. planning and design;
2. preparation of final designs and bidding documents; and
3. provision of support for procurement procedures and supervision of construction for investments under Parts B and C of the Project.

Part E: Project Implementation

Financing of Project implementation; incremental operating costs; audits; guidance and training for Utilities and local governments on Project implementation; and preparation of a stakeholder education campaign on linkages between improved service and willingness to pay.

* * *

The Project is expected to be completed by June 15, 2009.

SCHEDULE 3

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3), (4) and (5) 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 works, goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to □2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to □1,000,000, until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 3,500,000.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

SCHEDULE 4

Implementation Program

1. The Borrower, through the PMT, shall carry out the Project:
 - (a) under the overall coordination, management and supervision of the PMT established within the Ministry of Foreign Trade and Economic Relations of the Borrower, which shall be responsible for, among other matters, the clearance, management and supervision of Project procurement activities. The operational and administrative procedures for the implementation of the Project to be followed by the PMT, including for the selection, approval, monitoring, evaluation and supervision of Sub-projects, shall be set forth in the Operational Manual, satisfactory to the Association, and which shall be followed by the Borrower, through the PMT, each of the Entities and the PITs; and
 - (b) in accordance with the Environmental Management Plans and the Environmental Management Plan Framework and, unless the Association otherwise agrees, shall not amend, repeal or waive any of the Environmental Management Plans or the Environmental Management Plan Framework or any provision of any one thereof.
2. The Borrower, through the PMT, shall ensure that all measures necessary for the carrying out of the Environmental Management Plans and the Environmental Management Plan Framework are taken in a timely manner.
3. The Borrower shall adopt and thereafter maintain the Operational Manual, and shall also maintain the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement, in form and content satisfactory to the Association, and duly perform all its obligations under the Operational Manual, the Federation Subsidiary Credit Agreement and the RS Subsidiary Credit Agreement and shall not take or concur in any action which would have the effect of amending, assigning, abrogating or waiving the Operational Manual, the Federation Subsidiary Credit Agreement or the RS Subsidiary Credit Agreement without obtaining the prior approval of the Association.
4. The Borrower, through the PMT, shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section 4, on the progress achieved in the carrying out of the Project during the period preceding the date of said

report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.