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CONFORMED COPY

CREDIT NUMBER 3926 BOS

Development Credit Agreement

(Second Social Sector Adjustment Credit)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 21, 2004

CREDIT NUMBER 3926 BOS

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, July 21, 2004 between BOSNIA AND HERZEGOVINA (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated May 12, 2004 from the Borrower, the Federation of Bosnia and Herzegovina (the Federation) and Republika Srpska, describing a program of actions, objectives and policies designed to achieve structural adjustment of the social sector of the Borrower, the Federation and Republika Srpska (hereinafter called the Program), declaring the commitment of the Borrower, the Federation and Republika Srpska to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower, the Federation and Republika Srpska, by making the Credit in two tranches as hereinafter provided;

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 modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

“Project means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06, and 9.07.

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

(b) “Entity” means either the Federation or Republika Srpska, as the case may be, and “Entities” means the Federation and Republika Srpska, collectively;

(c) “Euro” 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 of European Union;

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

(e) “Federation Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower and the Federation, pursuant to Section 3.01 (a) of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules supplemental to the Federation Subsidiary Credit Agreement;

(f) “Fiscal Year” means the twelve-month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year;

(g) “Republika Srpska” or “RS” means Republika Srpska, a political sub-division of the Borrower, and includes any successor or successors thereto;

(h) “RS Subsidiary Credit Agreement” means the agreement to be entered into between the Borrower and Republika Srpska, pursuant to Section 3.01 (b) of this Agreement, as the same agreement may be amended from time to time, and such term includes all schedules supplemental to the RS Subsidiary Credit Agreement;

(i) “Subsidiary Credit” means a credit provided under a Subsidiary Credit Agreement (as defined hereafter); and

(j) “Subsidiary Credit Agreement” means either the Federation Subsidiary Credit Agreement or the RS Subsidiary Credit Agreement, as said agreement may be amended from time to time, and such term includes all schedules supplemental to each Subsidiary Credit Agreement and “Subsidiary Credit Agreements” means said agreements, collectively.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on terms and conditions set forth or referred to in the Development Credit Agreement, an

amount in various currencies equivalent to thirty four million seven hundred thousand Special Drawing Rights (SDR 34,700,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b), (c) and (d) of this Section, the Borrower shall be entitled to use the proceeds of the Credit withdrawn from the Credit Account and deposited in the Deposit Account in support of the Program.

(b) The Borrower shall, prior to furnishing to the Association the first request for withdrawal from the Credit Account, open and thereafter maintain in its central bank, a deposit account in Euros on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

(d) No withdrawals shall be made from the Credit Account after the aggregate of the proceeds of the Credit withdrawn from the Credit Account shall have reached the equivalent of sixteen million three hundred thousand Special Drawing Rights (SDR 16,300,000) unless the Association shall be satisfied, after an exchange of views as described in Section 3.03 of this Agreement based on evidence satisfactory to the Association:

- (i) with the progress achieved by the Borrower in the carrying out of the Program;
- (ii) that the macroeconomic policy framework of the Borrower is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Association; and
- (iii) that the actions described in Schedule 2 to this Agreement have been taken.

If, after said exchange of views, the Association is not satisfied, the Association may give notice to the Borrower to that effect and, if within 90 days after such notice, the

Borrower shall not have taken steps satisfactory to the Association, in respect of (i), (ii) and (iii) above, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

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

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

Section 2.07. (a) Subject to paragraphs (b), (c), and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual 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 the principal amount.

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

ARTICLE III

Particular Covenants

Section 3.01. The Borrower shall: (a) relend an amount in Dollars equivalent to twenty three million one hundred thousand Special Drawing Rights (SDR 23,100,000) out of the proceeds of the Credit to the Federation under a subsidiary credit agreement to be entered into between the Borrower and the Federation; and (b) relend an amount in Dollars equivalent to eleven million six hundred thousand Special Drawing Rights (SDR 11,600,000) out of the proceeds of the Credit to Republika Srpska under a subsidiary credit agreement to be entered into between the Borrower and Republika Srpska, on the following principal terms and conditions:

- (i) the term of each Subsidiary Credit shall be twenty (20) years, including a 10-year grace period;
- (ii) the Borrower shall charge the Federation and Republika Srpska a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of each Subsidiary Credit not withdrawn from time to time;
- (iii) the Borrower shall charge the Federation and Republika Srpska a service charge on the principal amount of each Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (iv) the principal amount of each Subsidiary Credit shall be repayable in Euros and shall be the equivalent in Euros (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 Program.

Section 3.02. The Borrower shall exercise its rights under the Subsidiary Credit Agreements in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Program, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Credit Agreements or any provision thereof.

Section 3.03. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.04. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than two (2) months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) that the Federation Subsidiary Credit Agreement shall have been executed with terms and conditions satisfactory to the Association; and
- (b) that the RS Subsidiary Credit Agreement shall have been executed with terms and conditions satisfactory to the Association.

Section 5.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) that the Federation Subsidiary Credit Agreement has been duly authorized or ratified by, and is legally binding upon the Borrower and the Federation in accordance with its terms; and
- (b) that the RS Subsidiary Credit Agreement has been duly authorized or ratified by, and is legally binding upon the Borrower and Republika Srpska in accordance with its terms.

Section 5.03. 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 VI

Representative of the Borrower; Addresses

Section 6.01. 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 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance and Treasury
of Bosnia and Herzegovina
TrgBiH
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:

Telex:

Facsimile:

INDEVAS

248423 (MCI) or

(202) 477-

6391

Washington, D.C.

64145 (MCI)

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

BOSNIA AND HERZEGOVINA

By /s/ Adnan Terzic
Authorized
Representative

INTERNATIONAL DEVELOPMENT
ASSOCIATION

By /s/ Shengman Zhang
Authorized
Representative

SCHEDULE 1

Withdrawals of the Proceeds of the Credit and Excluded Expenditures

For the purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. 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 not be excluded;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Section 2.02 (d) of this Agreement

1. The Borrower and both Entities have enacted a joint pension policy, satisfactory to the Association.
2. The Parliaments of both Entities have enacted legislation on social protection, satisfactory to the Association.
3. Both Entities are implementing the approved MOU for recognition of pension payment obligations when beneficiaries' contributions history and residence or place of pension authorization are different in a manner satisfactory to the Association.
4. Both Entities have put into operation the databases and client registries of social welfare beneficiaries and expenditures which are linked to their respective Entity Ministry responsible for social welfare.
5. The average monthly budgetary execution for veterans' benefits in the first half of Fiscal Year 2005 Entity budgets does not exceed the nominal average monthly execution for Fiscal Year 2004.
6. Both Entities have completed external audits of their respective Pension and Invalid Insurance Funds for Fiscal Year 2004 accounts, in a manner satisfactory to the Association.
7. Both Entities have approved a policy on active labor market programs, satisfactory to the Association.
8. Both Entities have adopted rulebooks for assessment of disability in veterans and civil victims of war programs and programs for children with disabilities, satisfactory to the Association.
9. Both Entities have completed the revision of the status of military invalids and family beneficiaries in the veterans' benefit system in a manner satisfactory to the Association.

10. The Parliaments of both Entities have enacted amendments to their legislation on profit tax for favorable treatment of non-governmental organizations in specific circumstances, satisfactory to the Association.