Energy Community of South East Europe Program

RS/EPRS Project Agreement

(ECSEE Project - Bosnia and Herzegovina Component)

among

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

and

ELEKTROPRIVREDA REPUBLIKE SRPSKE

Dated August 21, 2006
PROJECT AGREEMENT

Agreement dated August 21, 2006, entered into among INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"), REPUBLIKA SRPSKA ("RS") and ELEKTROPRIVREDA REPUBLIKE SRPSKE (EPRS) ("Project Agreement") in connection with the Financing Agreement of same date between Bosnia and Herzegovina ("Recipient") and the Association (the "Financing Agreement"). The Association, Republika Srpska and EPRS hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to the Financing Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in the Project Agreement have the meanings ascribed to them in the Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

2.01. Republika Srpska and EPRS declare their respective commitment to the objectives of the Project. To this end, Republika Srpska, through EPRS, shall carry out Part C of the Project, as well as EPRS’ portion of Part D of the Project, in accordance with the provisions of Article IV of the General Conditions, and Republika Srpska and EPRS shall provide, promptly as needed, the funds, facilities, services and other resources required for their Respective Part of the Project.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association, Republika Srpska and EPRS shall otherwise agree, Republika Srpska and EPRS shall carry out their Respective Part of the Project in accordance with the provisions of the Project Implementation Manual and the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVES; ADDRESSES

3.01. Republika Srpska’s Representative is the Minister of Finance of Republika Srpska.

3.02. EPRS’s Representative is the General Director of EPRS.
3.03. The Association’s Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable: INTBAFRAD  
Telex: 248423(MCI) or 64145(MCI)  
Facsimile: 1-202-477-6391

3.04. Republika Srpska’s Address is:

Ministry of Finance of Republika Srpska  
Ul. Vuka Karadzica 4  
78000 Banja Luka  
Bosnia and Herzegovina

Facsimile: 387 51 331351

3.06. EPRS’s Address is:

Electroprivreda Republike Srpske  
EPRS  
Stepe Stepanovica B.B.  
89101 Trebinje  
Republika Srpska  
Bosnia and Herzegovina

Facsimile: 387 59 277 120
AGREED Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dirk Reinermann  
Authorized Representative

REPUBLICA SRPSKA

By /s/ Dragan Cavic  
Authorized Representative

ELEKTROPRIVREDA REPUBLIKE SRPSKE

By /s/ Pantelija Dakic  
Authorized Representative
SCHEDULE

Implementation Program

Section I. Institutional Arrangements

Republika Srpska and EPRS shall carry out their Respective Part of the Project in accordance with the following coordination mechanisms:

1. Part C of the Project shall be carried out by Republika Srpska, through EPRS.

2. EPRS’ portion of Part D of the Project shall be carried out by Republika Srpska, through EPRS.

3. EPRS shall be responsible for the overall implementation and management of Part C of the Project, as well as its portion of Part D of the Project, including environmental and social safeguards management, and financial management.

4. The EPRS PIU in connection with Part C of the Project, as well as EPRS’ portion of Part D of the Project, shall be responsible for:

   (a) Day-to-day management and coordination of activities;
   (b) Monitoring and evaluation;
   (c) Procurement;
   (d) Financial management and audits; and
   (e) Such other duties and responsibilities as may be assigned to each of them under the Project Implementation Manual from time to time.

Section II. Implementation Covenants

1. Republika Srpska shall:

   (i) implement the RS Power Sector Restructuring Action Plan in accordance with its terms; and
   (ii) not amend or waive, or permit to be amended or waived, the RS Power Sector Restructuring Action Plan or any provision thereof, except with the prior written approval of the Association.

2. Republika Srpska and EPRS, respectively, shall maintain the EPRS PIU at all times during Project implementation, with terms of reference and resources satisfactory to the Association, and with competent staff in adequate numbers.
3. Republika Srpska and EPRS, respectively, shall:

   (i) implement the Project Implementation Manual, including the EMPs and the Financial Management Action Plan, in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein respectively set forth; and

   (ii) not amend or waive, or permit to be amended or waived, the Project Implementation Manual, the EMPs or the Financial Management Action Plan or any provision of any one thereof, except with the prior written approval of the Association.

4. Should any of the technical assistance undertaken pursuant to Parts C.4 and C.5 of the Project result in recommendations agreed among the Association, the Recipient, Republika Srpska and EPRS that significant and complex remedial works are necessary for a high-hazard dam, then Republika Srpska and EPRS shall undertake an independent review of the design and construction activities prior to the commencement of any such works.

Section III. Subsidiary Credit Agreement

1. To facilitate the carrying out of Part C of the Project, Republika Srpska shall enter into a subsidiary credit agreement with the Recipient and EPRS, under terms and conditions which shall have been approved by the Association, pursuant to which the Recipient shall relend a part of the proceeds of the Credit amounting to Euro equivalent to thirteen million three hundred twenty thousand Special Drawing Rights (SDR 13,320,000) to Republika Srpska and Republika Srpska shall relend said proceeds of the Credit to EPRS. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

   (i) the principal amount of the Sub-Credit shall be repaid by EPRS to Republika Srpska in Euro in equal semi-annual installments over twenty years, including a grace period of five years;

   (ii) the principal amount of the Subsidiary Credit shall be repaid by Republika Srpska to the Recipient in Euro in accordance with the same terms as those provided under Sections 2.05 and 2.06 of the Financing Agreement and shall be the equivalent in SDRs (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Financing Account on account of the RS/EPRS Subsidiary Credit Agreement;
(iii) the term of the Subsidiary Credit shall be twenty (20) years, including a 10-year grace period;
(iv) Republika Srpska shall pay to the Recipient a commitment charge on the Unwithdrawn Subsidiary Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of the Financing Agreement;
(v) EPRS shall pay to Republika Srpska a commitment charge on the Unwithdrawn Sub-Credit Balance at a rate equal to the rate payable by the Recipient under Section 2.03 of the Financing Agreement;
(vi) Republika Srpska shall pay to the Recipient interest at a rate equal to the rate payable under Section 2.04 of the Financing Agreement on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time; and
(vii) EPRS shall pay to Republika Srpska interest at a rate equal to EURIBOR plus three-quarters of one percent (0.75%) on the principal amount of the Sub-Credit withdrawn and outstanding from time to time. For the purposes of this sub-paragraph, the term “EURIBOR” means the Frankfurt interbank offered rate for six-month deposits in Euros.

2. Republika Srpska and EPRS shall exercise their respective rights under the RS/EPRS Subsidiary Credit Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, Republika Srpska and EPRS shall not assign, amend, abrogate or waive the RS/EPRS Subsidiary Credit Agreement or any provision thereof.

Section IV. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) EPRS, for and on behalf of Republika Srpska, shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 (b) of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association and Republika Srpska not later than forty-five (45) days after the end of the period covered by such report.
(b) Republika Srpska, through EPRS, shall:

(i) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about November 15, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project Implementing Entity’s part 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 Implementing Entity’s part of the Project and the achievement of the objectives thereof during the period following such date; and

(ii) review with the Association, by December 31, 2008, 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.

B. Financial Management, Financial Reports and Audits

1. Republika Srpska, through EPRS, shall maintain a financial management system and prepare financial statements in accordance with the provisions of Section 4.09 of the General Conditions, both in a manner adequate to reflect the operations and financial condition of EPRS, including the operations, resources and expenditures related to its Respective Part of the Project.

2. Without limitation on the provisions of Part A of this Section, Republika Srpska, through EPRS, shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim un-audited financial reports for its Respective Part of the Project covering such quarter, in form and substance satisfactory to the Association.

3. Republika Srpska, through EPRS, shall have the financial statements referred to above periodically audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of the financial statements shall cover the period of one (1) fiscal year of Republika Srpska or such other period as agreed by the Association. The audited financial statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section V. **Procurement**

All goods and services required for Republika Srpska’s and EPRS’ Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Schedule 2 to the Financing Agreement.

Section VI. **Financial Covenants**

1. (a) Except as the Association shall otherwise agree, EPRS shall produce, for each fiscal year after the fiscal year ending on December 31, 2006, funds from internal sources equivalent to not less than forty percent (40%) of the annual average of its capital expenditures incurred or expected to be incurred, for the current fiscal year, the previous fiscal year and the subsequent fiscal year.

   (b) For the purposes of this Section, the term “capital expenditures” means all expenditures incurred on account of fixed assets, including interest charged to construction, related to operations.

   (c) Before October 15 in each of its fiscal years, commencing in the calendar year 2006, EPRS shall, on the basis of forecasts prepared by EPRS, and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (i) in respect of such year and the next following fiscal year and shall furnish to the Association the results of each such review upon its completion.

   (d) If any such review shows that EPRS would not meet the requirements set forth in paragraph (i) for EPRS’ respective fiscal years covered by such review, EPRS shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its prices) in order to meet such requirements.

   (e) Before October 15 in each of their fiscal years, commencing in the calendar year 2006, EPRS shall review with the Association its proposed capital expenditures for the following five fiscal years and shall take the Association’s views into consideration in finalizing its capital expenditure programs.

   (f) For the purpose of this Section:

   (i) The term “funds from internal sources” means the difference between:

      (A) the sum of revenue from all sources related to operations, consumer deposits and consumer contributions in aid of construction, net non-operating income and any reduction in working capital other than cash; and
(B) the sum of all expenses related to operations, including administration, adequate maintenance and taxes and payments in lieu of taxes (excluding provision for depreciation and other non-cash operating charges), debt service requirements, all cash dividends and other cash distributions of surplus, increase in working capital other than cash and other cash outflows other than capital expenditures.

(ii) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

2. (a) Except as the Association shall otherwise agree, EPRS shall not incur any debt, unless a reasonable forecast of the revenues and expenditures of EPRS shows that its estimated net revenues for each fiscal year during the term of the debt to be incurred shall be at least 1.5 times its estimated debt service requirements in such year on all of its debt including the debt to be incurred.

(b) For the purposes of this Section:

(i) The term “debt” means any indebtedness maturing by its terms more than one (1) year after the date on which it is originally incurred.

(ii) Debt shall be deemed to be incurred:

(A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and

(B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.

(iii) The term “net revenues” means the difference between:

(A) the sum of revenues from all sources related to operations and net non-operating income; and
(B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.

(iv) The term “net non-operating income” means the difference between:

(A) revenues from all sources other than those related to operations; and

(B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above.

(v) The term “debt service requirements” means the aggregate amount of repayments (including sinking fund payment if any) of, and interest and other charges on, debt.

(vi) The term “reasonable forecast” means a forecast prepared by EPRS not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and EPRS accept as reasonable and as to which the Association has notified EPRS of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of EPRS.

(vii) Whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.