CONFORMED COPY

CREDIT NUMBER 4729-BA

Financing Agreement

(First Programmatic Public Expenditure Development Policy Financing)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 3, 2010
FINANCING AGREEMENT

Agreement dated June 3, 2010, entered into between BOSNIA AND HERZEGOVINA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient, through the Entities, has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Recipient’s maintenance of an appropriate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

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

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

ARTICLE II - FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to forty two million two hundred thousand Special Drawing Rights (SDR 42,200,000) (variously, “Credit” and “Financing”).

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are March 15 and September 15 in each year.
2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.

2.07. The Payment Currency is Euro.

ARTICLE III - PARTICULAR COVENANTS

3.01. The Recipient shall: (a) relend an amount in Euro equivalent to twenty five million three hundred twenty thousand Special Drawing Rights (SDR 25,320,000) out of the proceeds of the Financing to the Federation under the Federation Subsidiary Financing Agreement; and (b) relend an amount in Euro equivalent to sixteen million eight hundred eighty thousand Special Drawing Rights (SDR 16,880,000) out of the proceeds of the Financing to Republika Srpska under the RS Subsidiary Financing Agreement, all on terms and conditions satisfactory to the Association.

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

ARTICLE IV - PROGRAM

4.01 The Recipient, through the Entities, declares its commitment to the Program and its implementation. To this end:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient 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; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall and shall cause the Entities to promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.
ARTICLE V - REMEDIES OF THE ASSOCIATION

5.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

5.02. The Additional Event of Acceleration consists of the following, namely that the event specified in the preceding Section 5.01 occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Association to the Recipient.

ARTICLE VI - EFFECTIVENESS; TERMINATION

6.01. The Additional Conditions of Effectiveness consist of the following:

(a) the Association is satisfied with the progress achieved by the Recipient and the Entities in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework;

(b) the Federation Subsidiary Financing Agreement has been executed with terms and conditions satisfactory to the Association;

(c) the RS Subsidiary Financing Agreement has been executed with terms and conditions satisfactory to the Association; and

(d) the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

6.02. The Additional Legal Matters consist of the following.

(a) the Federation Subsidiary Financing Agreement has been duly authorized or ratified by, and is legally binding upon the Recipient and the Federation in accordance with its terms; and

(b) the RS Subsidiary Financing Agreement has been duly authorized or ratified by, and is legally binding upon the Recipient and RS in accordance with its terms.

6.03. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of this Agreement.
ARTICLE VII - REPRESENTATIVE; ADDRESSES

7.01. The Recipient’s Representative is the Minister of Finance and Treasury of Bosnia and Herzegovina.

7.02. The Recipient’s Address is:

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

Facsimile:

(387-33) 202-930

7.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:
INDEVAS 248423(MCI) 1-202-477-6391
AGREED at Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

BOSNIA AND HERZEGOVINA

By /s/ Dragan Vrankic
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Marco Mantovanelli
Authorized Representative
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient, through the Entities, under the Program include the following:

1. The Parliament of RS has enacted a law, satisfactory to the Association, on targeting of cash benefits mandating the targeting to needs.

2. The Parliament of the Federation has enacted a law, satisfactory to the Association, with a view to: (a) targeting cash benefits by way of mandating targeting to needs; (b) introducing a coefficient mechanism for all rights-based benefit schemes; and (c) introducing the indexation of all rights-based benefits to inflation instead of wage growth.

3. The Parliament of RS has enacted a law, satisfactory to the Association, amending the RS Law on the Rights of War Veterans and Families of Deceased Soldiers (Official Gazette No. 55/07) with a view to introducing, as of January 1, 2011, the targeting to means for the following benefits: (a) disabled war veterans with disability level 20% to and including 50%; and (b) all family benefits with the exception of children under age 27 who receive full time education.

4. The Parliament of the Federation has enacted a law, satisfactory to the Association, amending the Federation Law on Rights of Defenders and their Families (Official Gazette No. 33/04, as amended) with a view to introducing: (a) as of January 1, 2011, the targeting to means for the following benefits: (i) disabled war veterans with disability level 20% to and including 50%; and (ii) all family benefits with the exception of children under age 27 who receive full time education; (b) a coefficient mechanism for rights-based benefit schemes under said Law; and (c) indexation of rights-based benefits under said Law to inflation instead of wage growth.

5. The Parliament of the Federation has enacted a law, satisfactory to the Association, amending Federation Law on Special Rights of the Holders of Military Decorations (Official Gazette No. 70/05) with a view to introducing: (a) income means testing as of May 1, 2010; (b) a coefficient mechanism for rights-based benefit schemes under said Law; and (c) indexation of rights-based benefits under said Law to inflation instead of wage growth.

6. The Parliament of the Federation has enacted a law, satisfactory to the Association, repealing the Federation Law on Rights of Demobilized Soldiers and their Families (Official Gazette No. 61/06) and providing that benefits...
extended to current beneficiaries pursuant to said Law will cease on April 30, 2010.

7. The Parliament of the Federation has enacted a law, satisfactory to the Association, mandating the carrying out of eligibility audits for right-based veterans’ benefits and including a detailed plan providing for the implementation of said law based on a clear set of priorities for the carrying out of said audits, including, but not limited to, a targeted review of all disabled veterans in the disability category of 60%-80%.

8. The Government of RS has adopted an action plan, in form and substance satisfactory to the Bank, to improve the carrying out of audits of the current status and rights of disabled war veterans, including all disabled war veterans in disability categories 1 to 10 and the families of deceased soldiers.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts. The Financing is allocated in a single tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>42,200,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>42,200,000</td>
</tr>
</tbody>
</table>

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient and the Entities; and (b) with the appropriateness of the Recipient’s macroeconomic policy framework.

D. Deposits of Financing Amounts. Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association for on-lending by the Recipient to the Entities pursuant to Article III of this Agreement; and

2. the Recipient shall ensure that upon deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system in a manner acceptable to the Association.

E. **Excluded Expenditures.** The Recipient undertakes and shall cause the Entities to undertake that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

F. **Closing Date.** The Closing Date is December 31, 2010.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each March 15 and September 15</td>
<td>5%</td>
</tr>
<tr>
<td>commencing September 15, 2020</td>
<td></td>
</tr>
<tr>
<td>to and including March 15, 2030</td>
<td></td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “Entity” means either the Federation or RS, as the case may be, and “Entities” means the Federation and RS, collectively.

2. “Excluded Expenditure” means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups 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 Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>Group</td>
<td>Sub-group</td>
<td>Description of Item</td>
</tr>
<tr>
<td>-------</td>
<td>-----------</td>
<td>---------------------</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

3. “Federation” means the Federation of Bosnia and Herzegovina, a constitutive part of the Recipient, and includes any successor or successors thereto.

4. “Federation Subsidiary Financing Agreement” means the agreement entered into between the Recipient and the Federation, pursuant to Section 6.01 (b) of this Agreement, as the same agreement may be amended from time to time with the Association’s prior approval, and such term includes all schedules supplemental to the Federation Subsidiary Financing Agreement;

5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.

6. “Loan Agreement” means the agreement between the Recipient and the Bank in support of the Program, of the same date as this Agreement, as such agreement
may be amended from time to time. “Loan Agreement” includes all appendices, schedules and agreements supplemental to the Loan Agreement.

7. “Program” means the program of actions, objectives and policies designed to: (i) increase social assistance to the poor, while reducing the fiscal deficit and creating fiscal space for poverty-reducing growth; (ii) improve the structure and efficiency of public expenditures; and (iii) reduce social contribution rates and pressures on private sector wages from faster wage growth in the public sector, thereby enhancing private sector competitiveness, set forth or referred to in the letter dated March 2, 2010 from the Recipient to the Association declaring the Recipient’s and the Entities’ commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

8. “Repulika Srpska” or “RS” means Republika Srpska, a constitutive part of the Recipient, and includes any successor or successors thereto.

9. “RS Subsidiary Financing Agreement” means the agreement entered into between the Recipient and RS, pursuant to Section 6.01 (c) of this Agreement, as the same agreement may be amended from time to time with the Association’s prior approval, and such term includes all schedules supplemental to the RS Subsidiary Financing Agreement.

10. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

11. “Subsidiary Financing Agreement” means either the Federation Subsidiary Financing Agreement or the RS Subsidiary Financing Agreement, as such agreement may be amended from time to time with the Association’s prior approval, and such term includes all schedules supplemental to the Subsidiary Financing Agreement, and “Subsidiary Financing Agreements” means the Federation Subsidiary Financing Agreement and the RS Subsidiary Financing Agreement, collectively.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 *(Designated Accounts)* and 2.05 *(Eligible Expenditures)* are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Section 2.05 (renumbered as such pursuant to paragraph 2 above) is modified to read as follows:

   “Section 2.05. Refinancing Preparation Advance

   If the Financing Agreement provides for the repayment out of the proceeds of the Financing of an advance made by the Association or the Bank (“Preparation Advance”), the Association shall, on behalf of the Recipient, withdraw from the Financing Account on or after the Effective Date the amount required to repay the withdrawn and outstanding balance of the advance as at the date of such withdrawal from the Financing Account and to pay all accrued and unpaid charges, if any, on the advance as at such date. The Association shall pay the amount so withdrawn to itself or the Bank, as the case may be, and shall cancel the remaining unwithdrawn amount of the advance.”

4. Sections 4.01 *(Project Execution Generally)*, and 4.09 *(Financial Management; Financial Statements; Audits)* are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

5. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

6. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.06. Plans; Documents; Records

   … (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

7. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

   “Section 4.07. Program Monitoring and Evaluation

   … (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall
reasonably request, on the execution of the Program, the performance by
the Recipient and the Association of their respective obligations under
the Legal Agreements and the accomplishment of the purposes of the
Financing.”

8. The following terms and definitions set forth in the Appendix are modified or
deleted as follows, and the following new terms and definitions are added in
alphabetical order to the Appendix as follows, with the terms being renumbered
accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as
follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in
support of the Program, other than to finance expenditures excluded
pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the
Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is
modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in
support of which the Financing is made.” All references to “Project”
throughout these General Conditions are deemed to be references to
“Program”.

(d) The term “Program Preparation Advance” (renamed as such pursuant to
subparagraph 8 (c) above) is modified to read “Preparation Advance”
and its definition is modified to read as follows:

“‘Preparation Advance’ means the advance referred to in the Financing
Agreement and repayable in accordance with Section 2.05.”