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(Operation Number 42557)

PROJECT AGREEMENT

(Capljina Water Supply Project)

between

JP KOMUNALNO CAPLJINA D.O.O.

and

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Dated 10 APRIL 2012

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PROJECT AGREEMENT

AGREEMENT dated 10 APRIL 2012 between JP KOMUNALNO CAPLJINA D.O.O. (the "Project Entity") and EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT (the "Bank").

PREAMBLE

WHEREAS, pursuant to a loan agreement dated 3 APRIL 2012 2012 between Bosnia and Herzegovina as Borrower and the Bank (the "Loan Agreement" as defined in the Standard Terms and Conditions), the Bank has agreed to make a loan to the Borrower in the amount of EUR 5,000,000, subject to the terms and conditions set forth or referred to in the Loan Agreement, but only on the condition that the Project Entity undertakes the obligations set forth in this Agreement;

WHEREAS, pursuant to a subsidiary agreement to be entered into between the Borrower and the Federation of Bosnia and Herzegovina (the "FBH Subsidiary Agreement"), the Borrower will agree to make available to the Federation of Bosnia and Herzegovina the proceeds of the Loan;

WHEREAS, pursuant to a subsidiary loan agreement to be entered into between the Federation of Bosnia and Herzegovina and the Municipality of Capljina (the "Capljina Subsidiary Loan Agreement"), the Federation of Bosnia and Herzegovina will agree to make available to the Municipality of Capljina the proceeds of the Loan made available to the Federation of Bosnia and Herzegovina under the FBH Subsidiary Agreement;

WHEREAS, pursuant to a subsidiary loan agreement to be entered into between the Municipality of Capljina and the Project Entity (the "PE Subsidiary Loan Agreement"), the Municipality of Capljina will agree to make available to the Project Entity the proceeds of the Loan made available to the Municipality of Capljina under the Capljina Subsidiary Loan Agreement for purposes of carrying out the Project; and

WHEREAS, the Project Entity, in consideration of the Bank entering into the Loan Agreement with the Borrower and in consideration of the TC Grant Agreements and the Grant Agreement, has agreed to undertake the obligations set forth in this Agreement.

NOW, THEREFORE, the parties hereby agree as follows:

ARTICLE I - STANDARD TERMS AND CONDITIONS; DEFINITIONS

Section 1.01. Incorporation of Standard Terms and Conditions

All of the provisions of the Bank's Standard Terms and Conditions dated 1 October 2007 are hereby incorporated into and made applicable to this Agreement with the same force and effect as if they were fully set forth herein (such provisions are hereinafter called the "Standard Terms and Conditions").

Section 1.02. Definitions

Wherever used in this Agreement (including the Preamble and Schedules), unless stated otherwise or the context otherwise requires, the terms defined in the Preamble have the respective meanings given to them therein, the terms defined in the Standard Terms and Conditions, the Loan Agreement and the Loan Support Agreement have the respective meanings given to them therein and the following terms have the following meanings:

"Debt Service Reserve Account"

means the Project Entity's account referred to in Section 3.03(e) denominated in the official currency of the Borrower and opened at a commercial bank acceptable to the Bank.

"Designated Performance Requirements"

means Performance Requirements 1 through 8 and 10 (or, as the context may require, any one of such Performance Requirements) of the Performance Requirements dated May 2008 and related to the Bank's Environmental and Social Policy dated May 2008.

"Environmental and Social Action Plan"

means the plan of environmental and social mitigation and improvement measures dated November 2011 and prepared by D'Appolonia, a copy of which is attached hereto as Schedule 1, as such plan may be amended from time to time with the prior written consent of the Bank in accordance with Section 2.05(c).

"Environmental and Social Law"

means any applicable law or regulation which relates to:

- (a) pollution or protection of the environment, including related laws or regulations relating to public access to information and participation in decision-making;
- (b) labour and employment conditions;
- (c) occupational health and safety;
- (d) public health, safety and security;
- (e) indigenous peoples;
- (f) cultural heritage; or
- (g) resettlement or economic displacement of persons.

"Environmental and Social Matter"

means any matter that is the subject of any Environmental and Social Law, any Designated Performance Requirement or the Environmental and Social Action Plan.

"Financial and Operational Performance Improvement Plan"

means a plan on financial and operational performance improvements in the Project Entity to be prepared by the Project Entity with the support of the consultants, financed out of the TC Grants, and approved by the Municipality of Capljina, in form and substance satisfactory to the Bank.

"Fiscal Year"

means the Project Entity's fiscal year commencing on 1 January of each year.

"IFRS"

means International Financial Reporting Standards issued or adopted by the International Accounting Standards Board and consistently applied.

"PIU"

means the project implementation unit referred to in Section 2.03.

"Project Entity's

Authorised Representative" means the Director of the Project Entity.

Section 1.03. Interpretation

In this Agreement, a reference to a specified Article, Section or Schedule shall, except where stated otherwise in this Agreement, be construed as a reference to that specified Article or Section of, or Schedule to, this Agreement.

ARTICLE II - EXECUTION OF THE PROJECT

Section 2.01. Project Obligations

(a) The Project Entity shall carry out the Project. For this purpose, the Project Entity shall, unless the Bank otherwise agrees:

- (1) apply funds received in connection with the PE Subsidiary Loan Agreement and the Grant Agreement exclusively for the completion of the Project; and
- (2) take all action necessary to provide adequate funds for the completion of the Project.

(b) For purposes of this Agreement:

(1) all references to "the Borrower" in Sections 4.02(a), 4.02(c), 4.02(d), 4.02(e), 4.02(f), 4.04, 5.01(b) and 5.02(c)(iii) of the Standard Terms and Conditions shall refer to the Project Entity and the obligations set forth therein shall apply, *mutatis mutandis*, to the Project Entity; and

(2) all references to "the Loan Agreement" in Sections 4.02(a), 4.03, 4.04 and 5.02(c) of the Standard Terms and Conditions shall refer to this Agreement.

Section 2.02. PE Subsidiary Loan Agreement

The Project Entity shall duly perform all its obligations under the PE Subsidiary Loan Agreement. Except as the Bank otherwise agrees, the Project Entity shall not take or concur in any action that would have the effect of amending, abrogating, assigning or waiving the PE Subsidiary Loan Agreement or any provisions thereof.

Section 2.03. Project Implementation Unit

In order to coordinate, manage, monitor and evaluate all aspects of Project implementation, including the procurement of goods, works and services for the Project, the Project Entity shall, in close co-operation with the Municipality of Capljina, establish and at all times during execution of the Project operate a project implementation unit with adequate resources and suitably qualified personnel, under terms of reference acceptable to the Bank with the position of the head of the PIU to be permanently occupied by one and the same person.

Section 2.04. Procurement

For purposes of Section 4.03 of the Standard Terms and Conditions, the following provisions shall, except as the Bank otherwise agrees, govern procurement of goods, works and services required for the Project and to be financed out of the proceeds of the Loan and the Grant:

(a) Goods, works and services (other than consultants' services which are included within Section 2.04(c)) shall be procured through open tendering except as follows:

(1) contracts for leak repairs and monitoring under Part A of the Project in an aggregate amount not exceeding the equivalent of EUR 227,000.00 may be procured through local competitive tendering procedures acceptable to the Bank.

(b) For purposes of Section 2.04(a), the procedures for open tendering and standards for local competitive tendering procedures are set out in Chapter 3 of the EBRD Procurement Rules.

(c) Consultants to be employed by the Project Entity to assist in the carrying out the Project shall be selected in accordance with the procedures set out in Chapter 5 of the EBRD Procurement Rules.

(d) All contracts shall be subject to the review procedures set out in the EBRD Procurement Rules and shall be subject to prior review by the Bank.

Section 2.05. Environmental and Social Compliance Covenants

Without limiting the generality of Sections 4.02(a), 4.04(a)(iii), and 5.02(c)(iii) of the Standard Terms and Conditions, and unless the Bank otherwise agrees:

(a) Except as otherwise specified in the Environmental and Social Action Plan, the Project Entity shall, and shall cause any contractor to, carry out the Project in accordance with the Designated Performance Requirements.

(b) Without limiting the foregoing, the Project Entity shall diligently implement and adhere to the Environmental and Social Action Plan and monitor the implementation of such plan in accordance with the monitoring provisions contained in such plan.

(c) The Project Entity and the Bank may from time to time agree to amend the Environmental and Social Action Plan in response to changes in the circumstances of the Project or the Project Entity, unforeseen events and the results of monitoring. Without limiting the generality of the foregoing,

(1) if there is any adverse environmental or social impact or issue that was not foreseen by or contemplated in the Environmental and Social Action Plan either entirely or as to its severity,

(2) if any impact mitigation measure set out in the Environmental and Social Action Plan is not sufficient to eliminate or reduce any environmental or social impact to the level contemplated by the relevant Designated Performance Requirements within the time frame set out in the Environmental and Social Action Plan, or

(3) if any material non-compliance with the Environmental and Social Action Plan or with any Environmental and Social Law has been identified by an inspection from any regulatory or enforcement authority,

the Project Entity shall, as soon as reasonably practicable and subject to the consent of the Bank, develop and incorporate into the Environmental and Social Action Plan such additional or revised mitigation measures as may be necessary to achieve compliance with the Designated Performance Requirements, in each case in a manner satisfactory to the Bank.

Section 2.06. Consultants

(a) In order to assist in the implementation of the Project, the Project Entity shall, unless otherwise agreed with the Bank, engage or cause to be engaged, as required, and use consultants whose qualifications, experience and terms of reference are satisfactory to the Bank, including:

(1) consultants to assist in the implementation of Part B of the Project; and

(2) consultants to assist in the implementation of Part D of the Project.

(b) The Project Entity shall provide, without charge, to any consultants engaged to assist in matters relating to the Project or the operations of the Project Entity all support necessary for the carrying out of their functions, as well as all documents, materials and other information that may be relevant to their work.

Section 2.07. Reporting Frequency and Submission Requirements

(a) Commencing from the Effective Date, until the full amount of the Loan has been repaid or cancelled, the Project Entity shall submit to the Bank annual reports on Environmental and Social Matters arising in relation to the Project Entity or the Project, as referred to in Section 5.02(c)(iii) of the Standard Terms and Conditions, within 120 days after the end of the year being reported on. Such reports shall include information on the following specific matters:

(1) information on compliance by the Project Entity with the Designated Performance Requirements as described in Section 2.05 (a) and the implementation of the Environmental and Social Action Plan;

(2) information on how the Project Entity has monitored the compliance with the Designated Performance Requirements and the Environmental and Social Action Plan by any contractor engaged for the Project and a summary of any material non-compliance by such contractor with the Designated Performance Requirements and the Environmental and Social Action Plan and of any measures taken to remedy such non-compliance;

(3) information on implementation of the stakeholder engagement plan required by Designated Performance Requirement 10, including a summary of any grievances received and how such grievances were resolved;

(4) information on compliance by the Project Entity with Environmental and Social Laws in relation to the Project, including the status of any Authorisation required for the Project, the results of any inspection carried out by any regulatory authority, any violation of applicable laws, regulations or standards and any remedial action or fine relating to such violation, and a summary of any material notice, report and other communication on Environmental and Social Matters relating to the Project submitted by the Project Entity to any regulatory authority;

(5) information on occupational health and safety management and the occupational health and safety record of the Project, including the rates of accidents, lost time incidents and near-misses, any preventive or mitigative measures taken or planned, by the Project Entity, any staff training on occupational health and safety and any other initiatives in relation to occupational health and safety management which have been implemented or planned by the Project Entity;

(6) a summary of any change in Environmental and Social Laws which may have a material effect on the Project; and

(7) copies of any information on Environmental and Social Matters periodically submitted by the Project Entity to its shareholders or the general public.

(b) Commencing from the Effective Date, the Project Entity shall submit the periodic Project reports referred to in Section 4.04(a)(iv) of the Standard Terms and Conditions quarterly, as soon as available, but in any case not later than within 45 days after the end of the period being reported on, until the Project has been completed. Such reports shall include the following specific features:

(1) The following general information:

(A) the physical progress accomplished in the implementation of the Project to the date of report and during the reporting period;

(B) actual or expected difficulties or delays in the implementation of the Project and their effect on the implementation schedule, and the actual steps taken or planned to overcome the difficulties and avoid delays;

(C) expected changes in the completion date of the Project;

(D) key personnel changes in the staff of the Project Entity, the PIU, the consultants or the contractors;

(E) matters that may affect the cost of the Project; and

(F) any development or activity likely to affect the economic viability of any Part of the Project.

(2) A bar-type progress chart showing the progress in each Part of the Project and including a planned and actual expenditure graph.

(3) Financial statements showing details of the expenditures incurred under each Part of the Project and the Drawdowns, together with a statement showing:

(A) original cost estimates;

(B) revised cost estimates, if any, with reasons for changes;

(C) original estimated expenditures and actual expenditures to date;

(D) reasons for variations of actual expenditures to date from original estimated expenditures to date; and

(E) estimated expenditures for the remaining quarters of the year.

(4) A brief statement of the status of compliance with each of the covenants contained in this Agreement.

(5) information on compliance by the Project Entity with the Financial and Operation Performance Improvement Plan.

(c) Immediately upon the occurrence of any incident or accident relating to the Project Entity or the Project which has or is likely to have a significant adverse effect on the environment, or on public or occupational health or safety, the Project Entity shall inform the Bank and promptly thereafter give the Bank notice thereof specifying the nature of such incident or accident and any steps the Project Entity is taking to remedy the same. Without limiting the generality of the foregoing,

(1) an incident or accident relates to the Project if it occurs on any site used for the Project or, if it is caused by facilities, equipment, vehicles or vessels used for or relating to the Project (whether or not being used on any site of the Project and whether or not being used by authorised or unauthorised persons);

(2) an incident or accident is considered to have a significant adverse effect on the environment or on public or occupational health or safety if:

(A) any applicable law requires notification of such incident or accident to any governmental authority,

(B) such incident or accident involves fatality of any person (whether or not such person is employed by the Project Entity),

(C) more than one person (whether or not such persons are employed by the Project Entity) has received serious injury requiring hospitalisation, or

(D) such incident or accident has become, or is likely to become, public knowledge whether through media coverage or otherwise.

(d) The Project Entity shall promptly notify the Bank of any significant protest by workers or members of the public directed at or relating to the Project Entity or the Project which might have a material adverse effect on the Project Entity or the Project or which has become, or is likely to become, public knowledge through media coverage or otherwise. Within ten working days following any such notification, the Project Entity shall submit a report satisfactory to the Bank specifying the outcome of the Project Entity's investigation into such protest, and any steps taken, or proposed to be taken, by the Project Entity to resolve the issues raised in the protest.

(e) Commencing from the Effective Date, within 120 days after the end of each Fiscal Year the Project Entity shall provide evidence satisfactory to the Bank on the insurance arrangements required pursuant to Section 3.04(e) of this Agreement.

ARTICLE III - FINANCIAL AND OPERATIONAL COVENANTS

Section 3.01. Financial Records and Reports

(a) The Project Entity shall maintain procedures, records and accounts adequate to reflect, in accordance with internationally accepted accounting standards consistently applied, the operations and financial condition of the Project Entity and its Subsidiaries, if any, and adequate to monitor and record the progress of the Project (including its costs and the benefits to be derived from it).

(b) The Project Entity shall:

(1) have its records, accounts and financial statements (including its balance sheet, income statement and statement of changes in financial position, and notes thereon), and the records, accounts and financial statements of its Subsidiaries, for each Fiscal Year audited by independent auditors acceptable to the Bank in accordance with IFRS;

(2) from the Fiscal Year starting on 1 January 2012, furnish to the Bank as soon as available, but in any case not later than 180 days after the end of each Fiscal Year:

(A) certified copies of its financial statements for such Fiscal Year as so audited;

(B) the report of such audit by such auditors of such scope and in such detail as the Bank may reasonably request, which report shall, among others, include:

(i) a statement of compliance by the Project Entity with its obligations set out in Section 3.03 of this Agreement during such Fiscal Year; and

(ii) a statement of all financial transactions between the Project Entity and each of its Subsidiaries and Affiliates during such Fiscal Year;

(3) furnish to the Bank such other information concerning such records, accounts and financial statements, and the audit thereof, as the Bank may from time to time reasonably request; and

(4) make publicly available on its internet site the annual and semi-annual financial and operational results of the Project Entity, including but not limited to, compliance with the Project Entity's obligations set forth in Section 3.03 of this Agreement.

Section 3.02. Negative Financial Covenants

(a) The Project Entity shall not, except as the Bank otherwise agrees, take any of the following actions and shall provide to the Bank all such information thereon as the Bank may reasonably request:

(1) enter into any agreement or arrangement to guarantee or in any way or under any condition to become obligated for all or any part of any financial or other obligation of another person, including any Subsidiary or Affiliate;

(2) enter into any transaction with any person except in the ordinary course of business, on ordinary commercial terms and on the basis of arm's length arrangements, or establish any sole and exclusive purchasing or sales agency, or enter into any transaction whereby the Project Entity might pay more than the ordinary commercial price for any purchase or might receive less than the full ex-

works commercial price (subject to normal trade discounts) for its products or services;

(3) enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby the Project Entity's income or profits are, or might be, shared with any other person;

(4) sell, transfer, lease or otherwise dispose of all or a substantial part of its assets (whether in a single transaction or in a series of transactions, related or otherwise);

(5) undertake or permit any merger, consolidation or reorganisation; or

(6) hire any new staff until the separation of accounts for various activities of the Project Entity has taken place and the Project Entity has ceased the cross-subsidisation between the activities, as required pursuant to Section 3.03(f), and after such date hire new staff if as a result of such hire the Project Entity would be in breach of its obligations under Section 3.03(b).

(b) The Project Entity shall not, unless it informs the Bank at least 30 days in advance, take any of the following actions and shall provide to the Bank all such information thereon as the Bank may reasonably request:

(1) enter into any management contract or similar arrangement whereby its business or operations are managed by any other person, including any Subsidiary or Affiliate; or

(2) form any Subsidiary, or make or permit to exist loans or advances to, or deposits (except deposits in the ordinary course of business with reputable banks) with, other persons or investments in any person, including any Subsidiary or Affiliate; provided, however, that the Project Entity shall be at liberty to invest in short-term investment grade marketable securities solely to give temporary employment to the Project Entity's idle resources.

Section 3.03. Other Financial and Operational Covenants

Without limiting the generality of Section 3.02, the Project Entity shall:

(a) at all times maintain a ratio of current assets during the twelve months preceding the date of calculation to current liabilities during such period of not less than 1.1:1.0;

(b) at all times maintain a debt service cover ratio calculated as (i) EBITDA (earnings before interest, tax paid, depreciation and amortisation) minus tax paid plus/minus the change in working capital minus capital expenditure during the twelve months preceding the date of calculation to (ii) the sum of the principal repayments and interest payments on all debt due or accrued during such period, of not less than 1.3:1.0;

(c) during each Fiscal Year starting from 1 January 2013 maintain a ratio of (i) an aggregate amount paid to the Project Entity for services rendered to customers either in cash or by way of set off against the amounts due from the Project Entity during the

Fiscal Year to (ii) an aggregate amount billed to customers for the same services during such period, of at least 0.95:1.0;

(d) ensure that during the twelve months preceding the date of calculation the aggregate amount of all receivables, which are due and payable but which remain unpaid for more than one hundred and eighty (180) days, does not exceed:

(i) for the Fiscal Years 2013 and 2014: 10 percent of all receivables of the Project Entity; and

(ii) from the Fiscal Year 2015 onwards: 5 percent of all receivables of the Project Entity;

(e) no later than one month after the Effective Date open and thereafter maintain the Debt Service Reserve Account and ensure that 30 days prior to each Interest Payment Date it shall have a cash balance of not less than the debt service amount due under the Loan Agreement on such Interest Payment Date; no funds shall be withdrawn from the Debt Service Reserve Account without the written consent of the Bank other than for payments due under the Loan Agreement; and

(f) no later than by 1 January 2014 (i) fully separate, and from such date onwards maintain as separate, the accounts for various activities of the Project Entity whereby the activities related to water and wastewater services will be accounted for separately from the other activities of the Project Entity and (ii) cease the cross-subsidisation between the activities.

Section 3.04. Conduct of Business and Operations

The Project Entity shall, except as the Bank otherwise agrees:

(a) conduct its business and operations in accordance with internationally recognised sound administrative, financial, engineering and other relevant standards and practices and with due regard to all its principal operating policies;

(b) promptly take all action within its powers to maintain its legal existence, to carry on its operations and to acquire, maintain and renew all rights, properties, powers, privileges and franchises that are necessary for the conduct of its business, including the carrying out of the Project;

(c) not sell, lease or otherwise dispose of any of its assets that are required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Agreement;

(d) promptly notify the Bank of any proposal to amend, suspend or repeal any provision of the Statutes or the Financial and Operational Performance Improvement Plan and afford the Bank an adequate opportunity to comment on such proposal prior to taking any action thereon;

(e) take out and maintain with responsible insurers, or make other provisions satisfactory to the Bank in respect of, insurance against such risks of loss, damage and liability and in such amounts as are consistent with appropriate practice;

(f) at all times operate and maintain its plant, facilities, equipment and other property in good working order and, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound business and financial practice;

(g) not later than by 30 June 2013 adopt, and at all times thereafter comply with, the Financial and Operational Performance Improvement Plan; and

(h) not later than by 1 January 2013 enter into a service agreement with the Municipality of Capljina in form and substance satisfactory to the Bank, which agreement shall provide for tariffs for water and wastewater services payable to the Project Entity at the level that would enable the Project Entity to meet its obligations under the Project Agreement and in any event not lower than the amounts set out in Schedule 3 of the Loan Agreement.

ARTICLE IV - MISCELLANEOUS

Section 4.01. Cancellation and Suspension

Notwithstanding any cancellation or suspension under Article VII of the Standard Terms and Conditions, all of the provisions of this Agreement shall continue in full force and effect.

Section 4.02. Notices

The following addresses are specified for purposes of Section 10.01 of the Standard Terms and Conditions:

For the Project Entity:

JP Komunalno Capljina d.o.o.
Trg Ilije Tomasa 12
88300 Capljina
Bosnia and Herzegovina

Attention: Mr. Marijo Colic, Director

Fax: +387 36 806 547

For the Bank:


European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
United Kingdom

Attention: Operation Administration Unit

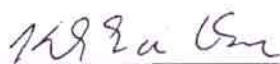
Fax: +44 20 7338 6100

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

JP KOMUNALNO CAPLJINA D.O.O.

By: 
Name: MARIO ZOLIC
Title: DIRECTOR

**EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

By: 
Name: LIBOR ERKOSKA
Title: HEAD OF OFFICE

SCHEDULE 1 – ENVIRONMENTAL AND SOCIAL ACTION PLAN

European Bank for Reconstruction and Development London, UK



**Capljina Water Supply
Environmental and
Social Due Diligence**

**Environmental And
Social Action Plan**

European Bank for Reconstruction and development London, UK

Capljina Water Supply Environmental and Social Due Diligence

Environmental And Social Action Plan

Prepared by	Signature	Date
Elmedina Krilasevic		November 2011
Sanja Pokrajac		November 2011
Controlled by	Signature	Date
Massimiliano Monetti		November 2011
Giovanni De Franchi		November 2011
Approved by	Signature	Date
Paola Rentocchini		November 2011
Undersigned by	Signature	Date
Roberto Carpaneto		November 2011

Rev.	Description	Prepared by	Controlled by	Approved by	Undersigned by	Date
0	First Issue	MZ, E. Krilasevic, S. Pokrajac	MM, GBD	PAR	RC	September 2011
1	Issue for Comments	MZ, E. Krilasevic, S. Pokrajac	MM, GBD	PAR	RC	October 2011
2	Issue for Comments	MZ, E. Krilasevic, S. Pokrajac	MM, GBD	PAR	RC	November 2011
3	Final Emission	MZ, E. Krilasevic, S. Pokrajac	MM, GBD	PAR	RC	November 2011
4	Second Final Emission	MZ, E. Krilasevic, S. Pokrajac	MM, GBD	PAR	RC	November 2011

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**ČAPLJINA WATER SUPPLY
ENVIRONMENTAL AND SOCIAL DUE DILIGENCE
ENVIRONMENTAL AND SOCIAL ACTION PLAN**

1 THE PURPOSE OF ESAP

Taking into account the findings of the environmental and social appraisal and the result of consultations, the Environmental and Social Plan (ESAP) has been developed for the Project. The ESAP contains mitigation and performance improvement measures and actions that address the identified social and environmental issues/gaps. The mitigation measures are actions designed to ensure that the Project will operate in compliance with relevant local laws and regulations, as well as EBRD's Environmental and Social Policy (2008) in all relevant stages of the Project. The ESAP focuses on avoidance of identified environmental and social impacts where possible, or on the mitigation measures to minimize or reduce possible impact to acceptable levels.

2 RESPONSIBILITY FOR IMPLEMENTATION

The Client (Public Utility Company Čapljina, [PUC]) is responsible to implement ESAP in accordance with the proposed measures and defined time schedule.

Specific personnel (including a direct responsible) in charge of HSE management and ESAP implementation should be designated within the Company, and a HSE Plan should be developed, defining systems and procedures which will apply to the Project as well as to the Company general activities.

The Client will ensure that employees with direct responsibility for activities relevant to the Project's or the company's social and environmental performance are adequately qualified and trained so that they have the knowledge and skills necessary to perform their work.

3 MONITORING AND REPORTING REQUIREMENTS

The Client will establish procedures to monitor and measure compliance with the environmental and social provisions of the legal agreements including effective implementation of the ESAP and improvements achieved over time against the baseline established during appraisal. The procedure should be developed before the Project implementation.

Monthly progress reports should be prepared by the Contract Supervisor and sent to Municipality/Company HSE management for approval. ESAP and PR compliance implementation issues should be explicitly included in the monthly Progress Reports. In addition, periodic HSE progress reports should be prepared by the responsible HSE person and a summary should be made publicly available according to PR10 and the SEP.

As part of their regular reporting to the Bank, the Client will provide the EBRD with updates on its progress in implementing the ESAP.

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
1	PR1 – Social and Environmental Assessment and Management System/ Organizational Capacity and Commitment	The lack of a comprehensive HSE Management Plan at Corporate level has repercussions on the global HSE performance of the Company. An organizational structure to manage and implement the Feasibility Study and the ESAP requirement is needed.	The Company management to define its own HSE Policy, HSE Standards and Procedures in accordance with cited International standards (ISO 14001/18001). Designate a responsible person within the Company for HSE Management and the Implementation of the ESAP. Develop and Implement Corporate HSEL Policies, Plans, standards and procedures to meet the Banks PRs. Review HSE Training needs, establish a training matrix and implement a training programme by Company management Monitor contractors during project Implementation.	70,000-80,000 € ¹	Prior and during project Implementation	Company	High
2	PR 1 – Contractor Management	Implement a Construction Management Plan	Require Contractor's to include a HSE-MS as part of tender requirements for the new water supply system construction. As a minimum the HSE-MS should require compliance with relevant regulatory requirements and operational controls to be defined within the Construction Environmental Management Plan (EMP) for the following as a minimum: OHS Risk assessment Noise Waste Hazardous Materials Management – chlorine gas in line with relevant MSDS (http://www.inchem.org/documents/csc/csc/leics0126.htm) Trench Safety - Safety fencing during	Part of the tender/contract preparation activity – Construction Management Plan	Prior to Project Implementation	Contractor	High

¹ Investment need to develop a comprehensive Environmental Management Plan at both Corporate and Project level (including all standards and procedures with the exclusion of the job standard operating procedures). The cost is based on similar assignments carried out by D'Appolonia.

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
			<p>trench works shall be required in addition to warning notices.</p> <p>HSE Training - Contractors to provide HSE training for all contractors working on site.</p> <p>All workers in site should receive at least an induction course.</p> <p>Grievance mechanism for workers. Tender documentation should include the requirement for contractors to :</p> <ol style="list-style-type: none"> 1. Implement the mitigation measures reported in the Feasibility Study, the ESRs, ESAP and the comply with the Banks PRs. 2. demonstrate that it employs human resource policies appropriate to its size and workforce in compliance with PR 2 requirements. 				
3	PR 1 – Environmental and Social Appraisal	The project environmental and social impacts and relevant measures summarized in the FS. Other impacts not assessed in the FS have been evaluated in the ESRs and the EBRD PR Compliance Reports. The corrective measures designed to address the impacts identified in the ESRs are provided in this ESAP.	Tender documentation should include the mitigation measures required in the Feasibility Study and ESAP.	Part of the tender/contract preparation activity (no extra resource need expected)	Prior to Project Implementation	Municipality and Company	High
4	PR 1 – Service Areas	The location of service areas, temporary construction sites and worker's camps are not yet defined.	Review the HSE risks and re-assess the area of influence of the project following the selection of all service areas to be utilized by the project e.g. temporary construction sites, waste disposal. Define any mitigation measures required to ensure compliance with the Banks PRs and monitor their implementation.	20,000 €	Prior to Project implementation	Municipality and Company	Low

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
5	PR 1 – Performance Monitoring and Review	At present, HSE issues are only verbally discussed in meetings between Managers and the Director, but periodic reports are not prepared either for the Director or for the Supervisory Board nominated by the Municipality.	Monthly progress reports should be prepared by the Contract Supervisor and sent to Municipality/Company HSE management for approval. ESAP and PR compliance implementation issues should be explicitly included in the monthly Progress Reports. Periodic HSE progress reports should be prepared by the appointed Responsible person for HSE and a summary should be made publicly available according to PR10 and the SEP.	Part of the Contract Supervisor duties	During Project Implementation	Company and Contractors	High
6	PR 2 – Labour and Working Conditions	The Client in practice has a well-established mechanism for employee-employer relations, direct communication, oral or in writing. However, the Client lacks written procedures and policies manage these relations besides the ones that are a part of legal regulations.	Prepare H&S procedures and manuals in written format in compliance with PR2 requirements and provide training of: - rules of internal communication; - use of protective equipment and monitoring of workers and contractors on the use of the equipment; and - emergency procedures in case of accident or other specific emergencies and emergency drills. Develop an internal policy on Equal Opportunities based on the requirements of local legislation.	8,000 €	Prior to Project implementation (end of January)	Company	Medium

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
7	PR 2 – Labour and Working Conditions	OHS risk assessment is lacking	Carry out OHS risk assessment to EU standards for work activities, evaluate the risk and prioritize appropriate control measures. Include practical recommendations to control the risks and monitor their implementation. Ensure operational control procedures for gas chlorine storage.	15,000 €	Prior to Project Implementation	Company	High
8	PR 2 – Labour and Working Conditions	Grievance mechanism for internal grievance management of the Client is not formalized and communicated to all employees	Develop procedure for internal grievance management, and communicate it to all employees	-	Prior to Project Implementation December 20, 2011 (for the Company)	Company's Legal Officer and Contractor	High
9	PR3 – Excavation	Implement a safe and systematic approach to excavation works to protect workers and others who may be affected by the work	A safe and systematic approach to excavation work is to be adopted whenever any ground disturbance is carried out to protect workers and others who may be affected by the work. This should include following best industry practise, assessment of the risks, adequate supports to prevent collapse, methods to detect unhealthy atmospheres before allowing any entry into any excavation, adequate means to enter and leave the excavation which are to remain in situ for the duration, instruction and information to all workers on the hazards associated with excavations and the risks to their health and safety and any other controls that minimise the risks which were identified during the initial assessment.	Within Implementation of CMP	During Project Implementation	Contractor	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
10	PR3 – Dust	Implement mitigation measures to reduce the negative impacts of dust during the construction	<p>Client PUC will develop detailed instructions for minimizing potential adverse impacts on air. Dust suppression measures will be specified in tender documents and contracts, which should address at minimum:</p> <ul style="list-style-type: none"> - the use of dirt, unpaved roads to be kept to a minimum; - work vehicles tyres to be cleaned prior to leave the working site and entering public roads. Trucks transporting dusty materials should be covered; and - regular watering of soil during the excavation phases. 	Within Implementation of EMP	Prior to tendering.	Municipality and Company	High
11	PR3 – Noise	Implement mitigation measures to reduce the negative impacts of noise during the construction	<p>Client will develop detailed instructions for minimizing potential adverse impacts on noise. Noise mitigation measures will be specified in tender documents and contracts, and should include as a minimum:</p> <ul style="list-style-type: none"> - Maintenance of equipment will be carried out to ensure compliance with type specific noise emission requirements; <p>Timing of operations will be undertaken so that night time limits (Hospital, sanatorium 40 dB(A) – Tourist, recreational, recovery centre 40 dB(A) – Purely residential, educational and health institutions, public green and recreational areas 45</p>	Within Implementation of EMP	Prior to and during Project Implementation	Municipality and Company	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
12	PR3 – Soil	Implement mitigation measures to reduce the negative impacts of soil during the construction	<ul style="list-style-type: none"> - dB(A) - Commercial, office and residential housing along the transport corridors, warehouses without heavy transport 50 dB(A)- Business 60 dB(A) - Industrial, storage, service and traffic area, unpopulated area dB(A)) are never exceeded – in general night time working is not recommended; and - If necessary, noise shielding of sensitive areas will be provided <p>Client will develop detailed instructions for minimizing potential adverse impacts on soil via Soil Management Procedure. These will be included in tender documents and contracts. In particular:</p> <ul style="list-style-type: none"> - during the construction phase, the top soil will be carefully removed; - the removed top soil will be properly protected to avoid loss and/or degradation; and - After the construction works have been completed, the soil will be placed back on and pre-construction conditions reinstated. 	Within Implementation of EMP	Prior to and during Project Implementation	Municipality and Company	High
13	PR3 – Groundwater	Implement mitigation measures to reduce the negative impacts of groundwater during the construction	<p>Client will develop Hazardous Materials Management Plan to minimize potential adverse impacts on groundwater. These will be included in tender documents and contracts. In particular:</p> <ul style="list-style-type: none"> - Spillages of polluting materials, particularly fuel, oils and lubricants will be avoided; - If a temporary fuel tank is used, it will be of the double walled type; and - oil absorbent materials will be kept on site to mitigate any spillages. <p>As the Chlorination of water process is performed using gas chlorine, Hazardous Material Management Plan shall include</p>	Within Implementation of EMP	Prior to and during Project Implementation	Municipality and Company	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
			<ul style="list-style-type: none"> dB(A) - Commercial, office and residential housing along the transport corridors, warehouses without heavy transport 50 dB(A)- Business 60 dB(A) - Industrial, storage, service and traffic area, unpopulated area dB(A)) are never exceeded – In general night time working is not recommended; and If necessary, noise shielding of sensitive areas will be provided 				
			measures to control potential release of gas chlorine and H&S and emergency procedures for dangerous level of exposure to gas chlorine.				
14	PR3 – Waste Management	During the construction activities, solid materials will likely to be generated either as waste or for temporary storage pending their use for reinstatement. An appropriate Waste Management Plan has not been developed yet.	Development and implement a Waste Management Plan in compliance with PR3 requirements and PUC monitor compliance with its requirements for all project related activities.	Within Implementation of EMP	Prior to and during Project Implementation	Municipality and Company	High
15	PR4 – UXO	A proper management of UXO should be ensured for the protection of the on-site workers and community.	A procedure for the management of UXO's shall be established, which includes a stop work procedure and safety measures to be adopted in the event of a UXO find.	Within Implementation of EMP	Prior to Project Implementation	Municipality and Company	Medium
16	PR4 – Transportation Plan	The project foresees moving equipment on public roads and other forms of infrastructure; the client will seek to prevent the occurrence of incidents and accidents associated with the operation of such equipment.	A Transportation Plan for moving equipment on public roads and other forms of infrastructure and also including community safety measures, advance notice to project affected people, safety measures etc. should be developed by contractors as part of the EMP and approved by the Company in advance of works commencing..	Within Implementation of EMP	Prior to Project Implementation	Company /Contractor	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
17	PR4 – Emergency and Disaster Response	Emergency preparedness and response plan for the overall Project activities missing.	A specific Emergency Preparedness and Response Plan including responsibilities, procedures, communication, training, and liaison with the local Authorities should be developed by contractors as part of the EMP and approved by the Company in advance of works commencing. Supporting procedures should include requirements for chlorine gas incidents. Develop a specific Chance Find Procedure in compliance with PR 8: It is required from the Client to set in place a provision for managing chance finds, defined as physical cultural heritage encountered unexpectedly during the project implementation. Such provisions include: <ul style="list-style-type: none"> - notification of relevant competent bodies of found objects sites; - alerting project personnel to the possibility of chance finds being discovered; - fencing-off the area of finds to avoid any further disturbance or destruction. The Company and Contractors will not disturb any chance finds until an assessment by a designated and qualified specialist is made and actions consistent with national legislation and PR 8 are identified.	Within implementation of EMP	Prior to Project Implementation	Company /Contractor	Medium
18	PR8 – Cultural Heritage	Introducing precautionary measures to protect potential cultural heritage at the Project sites		Within implementation of EMP	Prior and during Project Implementation	Company and Contractors	Medium
19	PR5 and PR10 – Public Consultations	The Municipality has carried out consultations with the Project Affected People with regards to the Project on the need basis in Local Community Offices. The Client however needs to ensure meaningful and informed consultations with regards to expropriation and other project impacts.	Implement a defined Company corporate policy and procedures for mitigating any adverse impacts to project affected people who can demonstrate that they have been physically or economically impacted by the Project, in compliance with PR 5 requirements. Resettlement Plans or Livelihood Restoration Frameworks to be submitted to EBRD.	5,000 €	Prior to and during expropriation	Company and Municipality	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
20	PR5 and PR10 – Economic Impact	Implement mitigation measures to reduce potential affordability impacts on vulnerable persons	<p>Define in Company procedures and implement mitigation measures for vulnerable people who suffer affordability impacts in the event of higher water bills.</p> <p>Provide information in the public domain on assistance available to vulnerable households. E.g. social security subsidise covering part of the cost of higher water payments in households defined as 'vulnerable' [e.g. unemployed, elderly, pensioners] and other subsidies to low-income households.</p> <p>The Contractor shall distribute information on a timely basis prior to work commencing as defined in Stakeholder Engagement Plan, particularly concerning:</p> <ul style="list-style-type: none"> - Inform affected communities about any works that may affect them (traffic and access obstructions, noise and dust); - Inform affected communities on the progress of works. - Provide the possibility to raise grievances through project grievance form 		Prior to foreseen rise in water bills	Company and Municipality	High
21	PR5 and PR10 – Public Consultations	Consultations with the affected stakeholders with regards to the Project on the need basis in Local Community Offices.	<p>Implement the SEP requirements including the grievance mechanism that is to be used by PUC and its contractors prior to work commencing. Publicise the Company grievance policies and procedures as defined in the SEP, monitor and report on its implementation to EBRD annually.</p>		Prior and during Project implementation	Contractor	High
22	PR5 and PR10 – Grievance Mechanism	There is no grievance mechanism set in place and communicated to the stakeholders			SEP issued by the beginning of 2012 and implemented.	Company, Municipality and Contractors	High

No.	EBRD Performance Requirement (PR) / Legislative Requirement/ Best Practice	Key Environmental and Social Issue	Proposed Action	Investment Needs /Resources	Timeframe	Responsibility	Priority
Area of Influence Issues (not directly related to the Project itself) to be implemented in future development phases (Long-term Development Plans)							
AOI	Area of Influence of the Project – Urban Solid Waste Management	Collected waste is disposed of at the municipal disposal site "Ada", located in the wider urban zone of the Town of Čapljina, on the right bank of the Neretva River and provided with no protection measure.	A specific program to meet EU requirements in terms of waste management should be developed and included in the Company HSE Management System, HSE Standards and Procedures. New property engineered and licensed disposal site (other than Ada site) should be used for Project's specific waste disposal.	NA (at least a Feasibility Study is necessary to define the possible investment need).	Prior to and during Project Implementation	Company	High
AOI	Area of Influence of the Project – Wastewater Management	Actually no WW treatment is being performed in the central municipal system, and untreated water is directly discharged into the Neretva River and its tributaries through four outlets.	A specific program to meet EU requirements in terms of wastewater management should be developed and included in the Company HSE Management System.	NA (at least a Feasibility Study is necessary to define the possible investment need).	Prior to and during Project Implementation	Company	High
AOI	Area of Influence of the Project – Biodiversity Conservation and Sustainable Management of Living Natural Resources (PR6)	Monitoring of long-term impacts on Hutovo Blato due to increased availability of water for agricultural production	Establish a joint monitoring programme of Water Quality in Hutovo Blato (for the presence of pesticides or other chemicals present due to increased agricultural production) to prevent potential impacts to Hutovo Blato waters of increased agricultural production due to availability of water for irrigation		After Project Implementation	Company, Municipality and Hutovo Blato	Low

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