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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

