

**DOCUMENT OF THE EUROPEAN BANK  
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 14 May 2026<sup>1</sup>

**BOSNIA AND HERZEGOVINA**

**FOCA-HUM ROAD**

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<sup>1</sup> As per section 1.4.8 of EBRD's Directive on Access to Information (2024), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

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**ABBREVIATIONS / CURRENCY CONVERSIONS**

AA	Appropriate Assessment
ACAP	Anti-Corruption Action Plan
BiH	The State of Bosnia and Herzegovina
BMP	Biodiversity Management Plan
CDP	Corporate Development Plan
CH	Critical Habitat
CHA	Critical Habitat Assessment
CP	Condition Precedent
DSCR	Debt Service Cover Ratio
ECEPP	EBRD Client e-Procurement Portal
EIA	Environmental Impact Assessment
EIRR	Economic Internal Rate of Return
ENPV	Economic Net Present Value
E&S	Environment and Social
ESAP	Environmental and Social Action Plan
ESMP	Environmental and Social Management Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESP	Environmental and Social Policy
EU	European Union
FBH	Federation of Bosnia and Herzegovina
LALRF	Land Acquisition and Livelihood Restoration Framework
LARP	Land Acquisition and Resettlement Plan
LSA	Loan Support Agreement
PFA	Procurement Framework Agreement
PIA	Project Implementation Agreement
PIU	Project Implementation Unit
PPR	Procurement Policies and Rules
PRs	EBRD Performance Requirements
RAMS	Road Asset Management Systems
RAP	Resettlement Action Plan
RFP	Resettlement Framework Policy
RGF	Reform and Growth Facility
RS	Republika Srpska
SDR	Social Discount Rate
SLA	Service Level Agreement
SEP	Stakeholder Engagement Plan
SNSD	Alliance of Independent Social Democrats
SPS	Sector Policy Statement
SSF	Shareholder Special Fund
NTS	Non-technical Summary
VPD	Vehicles per day
WB	World Bank
WBIF	Western Balkans Investment Framework

1 EUR = 1.95 BAM

## PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of Bosnia and Herzegovina (the “Borrower” or “BiH”) are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to BiH in the amount of up to EUR 60 million for the benefit of JP “Putevi Republike Srpske” d.o.o. Banja Luka (“Putevi RS”, the “Company” or the “Client”), a limited liability company incorporated in BiH and wholly owned by Republika Srpska (“RS”). The loan will be provided in two tranches: of up to EUR 48 million, to be committed at signing, and of up to EUR 12 million, uncommitted. The Project is expected to be co-financed with a loan from the World Bank (“WB”) in the amount of up to EUR 39.4 million.

The operation will enable Putevi RS to construct a new section of the Foca-Hum road from Donji Kopilovi to the border crossing bridge at Hum on the Montenegrin border, approximately 13.3 km in length (the “Project”). The Project is a high priority for BiH and is included as a flagship investment under the EU’s Economic and Investment Plan for the Western Balkans since it is the shortest link between BiH, Montenegro and Albania, contributing to the improvement of connectivity between these countries and between the region and the EU markets.

The expected transition impact of the Project derives from (i) the *Integrated* transition quality by improving BiH’s key transport infrastructure and facilitating its internal and regional integration, and (ii) the *Competitive* transition quality by supporting Putevi RS with the preparation of a corporate development programme (“CDP”), including the development and implementation of a financial and operational performance improvement programme (“FOPIP”). The Project will also support the Company to strengthen specific compliance areas through the development and implementation of a focused anti-corruption action plan (“ACAP”). The Project is *Gender Additional* by supporting women’s entry into the male dominated road sector through paid internships and employment pathways.

Technical cooperation (“TC”) support for this operation is expected to be provided by EBRD’s Shareholder Special Fund (“SSF”) to assist the Company with the preparation and implementation of CDP, FOPIP and ACAP.

I am satisfied that the operation is consistent with the Bank’s Strategy for Bosnia and Herzegovina, the Infrastructure Sector Strategy, the Bank’s Green Economy Transition (“GET”) 2030 Strategy, the Strategy for the Promotion of Gender Equality, and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed sovereign loan substantially on the terms of the attached Report.

**Odile Renaud-Basso**

## BOARD DECISION SHEET

BOSNIA AND HERZEGOVINA – FOCA-HUM ROAD - DTM 54978	
<b>Transaction / Board Decision</b>	<p>Board approval<sup>2</sup> is sought for a sovereign loan of up to EUR 60 million in favour of Bosnia and Herzegovina (“BiH” or the “Borrower”) to be on-lent to JP “Putevi Republike Srpske” d.o.o. Banja Luka (“Putevi RS”, the “Company”, or the “Client”) through Republika Srpska (“RS”). The transaction will co-finance the construction of a new road section, approximately 13.3 km in length, from Donji Kopilovi near the town of Foca in BiH to the border crossing bridge at Hum, on the border with Montenegro (the “Project”).</p> <p>The Bank’s loan will be divided into two tranches: i) Tranche 1 of up to EUR 48 million to be committed upon signing; and ii) Tranche 2 of up to EUR 12 million, uncommitted. [REDACTED]The Project will be co-financed with a loan from the World Bank (“WB”) in the amount of up to EUR 39.4 million which was signed on 16 June 2025 with BiH.</p>
<b>Client</b>	<p>The Borrower is BiH represented by the Ministry of Finance and Treasury of BiH. The Client and the Implementing Agency is Putevi RS, a limited liability company incorporated in BiH and fully owned by RS. Putevi RS is responsible for the development, operation, and maintenance of the main and regional roads in RS.</p>
<b>Main Elements of the Proposal</b>	<p><u>Transition impact</u></p> <p>Primary Quality – <i>Integrated</i>, by improving BiH’s key transport infrastructure and facilitating BiH’s internal and regional integration, as well as enhancing safety standards and climate resilience of the road network</p> <p>Secondary Quality – <i>Competitive</i>, by supporting the Company with the preparation of a corporate development programme (“CDP”), including the development and implementation of a financial and operational performance improvement programme (“FOPIP”).</p> <p><u>Additionality</u></p> <p>(i) <i>Financing structure</i>: The Bank offers longer-term financing that is not available in the market from commercial sources on reasonable terms and conditions necessary to structure this Project; (ii) <i>Setting standards</i>: Client makes use of EBRD expertise on corporate governance improvements; (iii) <i>Gender Additional</i>: The Project will support women’s entry into the male-dominated road sector.</p> <p><u>Sound banking</u> – The transaction is a sovereign loan.</p>
<b>Key Risks</b>	<p>The key risks identified are related to the implementation of the Project within time and budget. This is mitigated by the appointment of a project implementation unit (“PIU”) established within the Company, supported by an independent project implementation and works supervision consultant to ensure smooth implementation. The consultant will be financed by proceeds of the WB loan. The works contract to be co-financed by the EBRD and the WB will be procured as a design-and-build contract based on the FIDIC Yellow Book, according to the Procurement Framework Agreement (“PFA”) signed between the Bank and the WB on 29 November 2023, based on the Project Implementation Agreement (“PIA”) signed between the EBRD and the WB on 23 June 2025.</p>
<b>Strategic Fit Summary</b>	<p>The Project is fully consistent with the Bank’s Country Strategy for Bosnia and Herzegovina, the Infrastructure Sector Strategy, the Strategy for the Promotion of Gender Equality, the GET 2030 Strategy, and the Agreement Establishing the Bank.</p>

<sup>2</sup> Article 27 of the AEB provides the basis for this decision.

## ADDITIONAL SUMMARY TERMS FACTSHEET

<b>EBRD Transaction</b>	<p>A sovereign loan of up to EUR 60 million to BiH to be on-lent to Putevi RS to be provided in two tranches as follows:</p> <ul style="list-style-type: none"> <li>• Tranche 1 of up to EUR 48 million to be committed upon signing;</li> <li>• Tranche 2 of up to EUR 12 million, uncommitted [REDACTED]</li> </ul> <p>The Project will be co-financed with a sovereign loan from the WB in the amount of up to EUR 39.4 million, signed in June 2025.</p>
<b>Mutual Reliance</b>	<p>Yes.</p> <p>The Project will be co-financed with the WB and implemented in accordance with the PFA signed between the EBRD and WB on 29 November 2023 for a coordinated and unified approach to procurement in jointly financed projects in the common member countries of the WB and the countries of operation of the EBRD, with the WB undertaking the role of the lead financier as per the PIA between the EBRD and the WB signed on 23 June 2025.</p>
<b>Existing Exposure</b>	The Bank's total sovereign portfolio exposure in BiH as of end of March 2026 was EUR 935 million, with operating assets of EUR 601 million.
<b>Maturity / Exit / Repayment</b>	20 years tenor [REDACTED]
<b>Potential AMI eligible financing</b>	N/A
<b>Use of Proceeds - Description</b>	The proceeds of the EBRD loan will be used to (i) co-finance the works for the construction of a new road section from Donji Kopilovi to the border crossing bridge at Hum, near the border with Montenegro, approximately 13.3 km in length; and (ii) pay the front-end-fee ("FEF"). Furthermore, the EBRD loan may be used to finance additional consultancy services for implementation support in the amount of up to EUR 100,000, complementing the PIU support provided by the WB.
<b>Investment Plan</b>	[REDACTED]
<b>Financing Plan</b>	[REDACTED]
<b>Key Parties Involved</b>	BiH as the Borrower; RS as the supporting entity; Putevi RS as the Client and Implementing Agency; the WB as the Lead Co-financier.
<b>Conditions to disbursement</b>	[REDACTED]
<b>Key Covenants</b>	[REDACTED]
<b>Security / Guarantees</b>	Sovereign loan.
<b>Other material agreements</b>	<ul style="list-style-type: none"> <li>• Project Agreement between the Bank and Putevi RS</li> <li>• Loan Support Agreement between the Bank and RS</li> <li>• Project Implementation Agreement between the EBRD and the WB</li> <li>• Subsidiary Loan Agreement between BiH and RS related to the EBRD loan</li> <li>• Subsidiary Loan Agreement between RS and Putevi RS related to the EBRD loan</li> <li>• Loan Agreement between the WB and BiH</li> </ul>
<b>Associated Donor Funded TC and Blended Concessional Finance</b>	<p><b>A. Technical Cooperation (TC)</b></p> <p><i>Post-signing:</i></p> <p><b>TC1:</b> CDP including the FOPIP. Funded by SSF in the amount of EUR 250,000. <i>Approved.</i></p> <p><b>TC2:</b> Anti-Corruption Action Plan ("ACAP"). Funded by SSF in the amount of EUR EUR 70,000. <i>Approved.</i></p> <p><i>Reimbursement and Cost sharing:</i></p>

	<p>The above TC assignments are non-reimbursable transactional TCs required to structure the Project and achieve the Project's objectives. The Borrower/Company will be responsible for paying all VAT and other indirect taxes that are applied to the post-signing TC assignments where the Company is the contracting party as a parallel contribution to the Project (VAT is levied at 17 percent in BiH).</p> <p><b>B. Co-investment grants / Concessional Finance (Non-TC)</b> An investment grant in the amount of EUR 35 million under the EU RGF is expected to be requested by the Borrower, which, if approved, will be managed by the WB as the Project's lead financier.</p>
[REDACTED]	

## INVESTMENT PROPOSAL SUMMARY

### 1. STRATEGIC FIT AND KEY ISSUES

#### 1.1 STRATEGIC CONTEXT

The Foca-Hum Road Project represents a strategic initiative to enhance connectivity and resilience along the Sarajevo - Podgorica route, part of Route 2b of the Trans-European Transport Networks (“TEN-T”) indicative extension in the Western Balkans. The Foca-Hum road connects the town of Foca in the southwestern part of BiH with the Montenegrin border and is part of the shortest connection between the capital cities of Sarajevo and Podgorica. The Sarajevo – Podgorica road connection is recognised as a strategic regional link for the region’s integration and economic growth as it provides the shortest route between BiH, Montenegro and Albania and, via Corridor Vc, improved access to EU markets. The road also plays a vital role in supporting tourism and outdoor recreation, including rafting on the Drina and Tara rivers and visits to Piva Nature Park in Montenegro and Sutjeska National Park in BiH. The strategic importance of the Foca-Hum road is reflected in key planning and policy documents in BiH and RS, including the Framework Transport Strategy of BiH for 2015 – 2030 and Transport Strategy of RS for 2016 – 2030. The Foca-Hum Road is also identified as a priority project under the EU’s Economic and Investment Plan for the Western Balkans.

The Project is part of a larger investment which includes the rehabilitation and construction of two other adjacent road sections: i) rehabilitation of the existing road section between Brod na Drini and Donji Kopilovi, approximately 5.5 km in length, to the north of the Project, financed by the Client, and ii) construction of a joint border crossing bridge, approximately 380 m in length, over the Tara River to Montenegro, to be financed jointly by BiH and Montenegro.

The Foca-Hum road passes through challenging mountainous terrain with steep slopes, landslide-prone areas and limited existing road infrastructure. Its current condition is very poor due to its exposure to climate-related events and low design standards. The road section from Donji Kopilovi to Hum to be financed by the Project is the largest subsection of the Foca-Hum road. This road section is in particularly poor condition and vulnerable to active landslides and flooding, resulting in significant deformation of the road surface. The road has speed limits as low as 30 km/h, a pavement width of only 3.5 m in poor conditions, inadequate slope stabilization measures and road shoulders, and road safety features that are either deficient or missing. Due to these conditions, the road has been closed for trucks and commercial vehicles since 2019. The Project will address these issues by incorporating road safety improvements and climate-resilient measures in the detailed design. By providing much needed improvements to this critical road section, the Project will enhance regional connectivity and contribute to a safer and more resilient road network.

The Project is consistent with the Bank’s Country Strategy for BiH, as it addresses Priority 2: “Close key infrastructure gaps pursuing governance improvements and further regional integration.” It will improve a key transportation corridor between BiH and Montenegro, enabling faster, safer and more efficient cross-border movement of people and goods. The upgraded infrastructure will allow the re-establishment of freight transport along Route 2b and enhance BiH’s export capacity. Enhanced road quality and reduced travel times will also benefit the large number of tourists using this corridor during the summer season. Better connectivity is expected to extend the tourist season and boost local revenues from accommodation, hospitality, and tour services. As a result, the Project will support further regional integration, better access to markets, and greater economic efficiency. In addition, the Bank’s Country Strategy for BiH highlights the importance of strengthening corporate governance and improving efficiency of

state-owned enterprises (“SOEs”). The Project will include a TC to support Putevi RS in preparing and adopting a CDP, including the development and implementation of a FOPIP. A separate TC will support Putevi RS with preparation, adoption, and implementation of an ACAP with the aim of strengthening compliance measures within the Company.

The Project is also consistent with the Infrastructure Sector Strategy as it enables better-connected, safer and more integrated transport network by improving the quality of a key road network that enables trade. The Project will also broaden access to higher-standard infrastructure and strengthen the resilience of the road network by ensuring that recommendations from road safety audit and climate vulnerability assessments are incorporated into the final design.

The Project is also consistent with the Strategy for the Promotion of Gender Equality as it will support women’s entry into the male-dominated road sector. As a result of the Project, the Company has committed to the WB and EBRD to offer a total of 30 paid internships with at least 60% female participation by 2030. On a best-effort basis, the Company has further committed to extend employment contracts to five women upon completion of their internships and engineering degrees.

## 1.2 TRANSITION IMPACT

The table below sets out the TI Objectives and details of the project.

### Primary Quality: Integrated

Obj. No.	Objective	Details
1.1	<i>The project delivers material quality improvements of the current infrastructure between or within regions that are currently inadequately integrated.</i>	<p>The EBRD loan will finance the construction of a new road section, approximately 13.3 km in length, between Donji Kopilovi and Hum on the border with Montenegro. This road section represents the largest section of the Foca-Hum Road, which is the only direct link connecting Sarajevo to Podgorica. This connection is identified as a strategic infrastructure investment for the region as it provides the shortest link between BiH, Montenegro and Albania, and through Corridor Vc, provides these three countries with better access to the EU markets.</p> <p>Current traffic on the Foca-Hum route is estimated at ca 800 vehicles/day. This is expected to increase significantly by 37.5% after the Project’s completion.</p>

### Secondary Quality: Competitive

Obj. No.	Objective	Details
2.1	<i>Specific organisational measures to reduce costs will be introduced and material cost reductions will be benchmarked and monitored (i.e. minimum 5% reduction of the cost per unit of infrastructure regardless of whether</i>	<p>The Project includes TC support to the Company for the development and implementation of a CDP, including FOPIP. The assignment has three main objectives:</p> <ul style="list-style-type: none"> <li>• Develop FOPIP to achieve short- to mid- term performance improvements, including efficiency savings of at least 5% of OPEX per km over the 2 year period.</li> <li>• Support the preparation of strategic documents for corporate and business development to enable the Company to improve</li> </ul>

	<i>that is charged to users or taxpayers).</i>	its commercial standing and overall performance over the mid to longer-term period. • Support the implementation of FOPIP and business planning aimed at commercialization and sustainable development of the Company.
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**Delivery risks:** The main delivery risk relates to failure to implement the Project effectively as the Client has limited experience in implementing IFI-funded projects. This risk is mitigated by establishment of PIU with adequate resources and suitably qualified personnel acceptable to the Bank, which will be supported by experienced international consultants during the Project’s implementation.

### 1.3 ADDITIONALITY

Identified triggers	Description
n/a	<i>No triggers identified</i>

Additionality sources	Description of additionality sources
<p><b>Financing Structure</b></p> <ul style="list-style-type: none"> <li>– EBRD offers financing that is not available in the market from commercial sources on reasonable <b>terms and conditions</b>, e.g. a longer grace period. Such financing is necessary to structure the project.</li> <li>– EBRD offers a <b>tenor</b>, which is longer than available to the client in the market on reasonable terms and conditions.</li> <li>– Public sector: EBRD investment is needed to close the <b>funding gap</b>. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.</li> </ul>	<p>The Bank is providing a sovereign loan with a tenor of 20 years [REDACTED]</p> <p>Furthermore, EBRD financing is relatively sizeable for the local market and will be complemented by a loan from the WB, hence not crowding out other sources.</p>
<p><b>Standard-setting: helping projects and clients achieve higher standards</b></p> <ul style="list-style-type: none"> <li>– Client seeks/makes use of EBRD expertise on <b>corporate governance</b> improvements, including for climate risk management.</li> <li>– <b>Gender SMART</b>: Client seeks/makes use of EBRD expertise for the adoption of <b>gender standards and/or equal opportunities action plans</b></li> </ul>	<p>The Project includes TC support to Putevi RS for i) preparation and implementation of a CDP, including the development and implementation of FOPIP, and ii) preparation and implementation of an ACAP.</p> <p>Gender SMART: As a result of the Project, the Company has committed to the WB and EBRD to offer a total of 30 paid internships (three months each) with at least 60% female participation by 2030. On a best-effort basis, the Client has further committed to extend employment contracts to five women upon completion of their internships and engineering degrees. These opportunities are reserved for final-year students or recent graduates from engineering faculties, with priority given to women in transportation and construction disciplines which are traditionally dominated by men. The internship programme will be led by Putevi RS to ensure it is tailored to sector-specific needs and delivered during the construction phase [REDACTED]. The Client will report on the progress of the internship programme to both the WB and EBRD, ensuring transparency and alignment across institutions, and enabling both financiers to track delivery against shared gender commitments.</p>

## 1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Fiscal/Macro-economic risk	Medium / Medium	<ul style="list-style-type: none"> <li>• BiH will service the loan's debt repayment. As such, the fiscal and macroeconomic situation of BiH has a direct impact on the capacity to service the debt.</li> <li>• The latest credit ratings of BiH remain below investment grade, with Standard &amp; Poor's rating at B+ and Moody's at B3, both with stable outlook. The rating is based on a consolidated fiscal position and a moderate debt burden, but its economic prospects are constrained by political tensions that hinder collaboration and investment, as well as weak demand from key trading partners in the EU.</li> <li>• Most of the country's debt is held by official bilateral and multilateral creditors with long maturities and favourable interest rates, keeping debt service costs contained.</li> <li>• Based on BiH Law on Debt, foreign debt service of the country has absolute priority over other expenditure and is independent of the adoption of the State Budget.</li> </ul>
Regulatory risk	Low / High	<ul style="list-style-type: none"> <li>• The relevant institution in charge of transport infrastructure in RS is the Ministry of Traffic and Communications of RS ("MTC RS")</li> <li>• The road sector in RS is regulated by the Law on Public Roads in RS</li> <li>• No regulatory change is anticipated that would negatively impact the Project, and this risk is mitigated by the strategic importance of the road section as well as the sovereign structure of the loan</li> </ul>
Implementation risk	High / High	<ul style="list-style-type: none"> <li>• The Project will be implemented by Putevi RS which has limited experience implementing IFI-funded Projects.</li> <li>• To mitigate this risk, Putevi RS will establish a PIU composed of experts with experience in road construction and rehabilitation supported by experienced international PIU consultants and works supervision engineer.</li> </ul>
Cost over-run risk	Medium / High	<ul style="list-style-type: none"> <li>• The Project's cost estimates include contingencies and were prepared by an independent consultant during July 2025 – September 2025.</li> <li>• [REDACTED] International consultants will support the procurement and implementation of the Project, which will help avoid potential implementation delays and related cost increases.</li> </ul>
FX risk	Low / Low	As BAM is pegged to EUR this risk is not material.

## 2. MEASURING / MONITORING SUCCESS

### Transition Impact Monitoring Indicators

#### Primary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
1.1	Improved quality of infrastructure within regions	The Foca-Hum road connects with Scepan Polje – Pluzine road in Montenegro and is the only link directly connecting Sarajevo and Podgorica, supporting trade and tourism between BiH and Montenegro. EBRD financing will be for the construction of a new road section between Donji Kopilovi to Hum (13.3 km). This represents the largest sub-section on the Foca-Hum road.	No	Yes	[REDACTED]
1.2	Net increase in road infrastructure usage and/or capacity	Current traffic on Foca-Hum route is estimated at ca 800 vehicles/day. This is expected to increase significantly by 37.5% following the Project's physical completion.	800	1,100	[REDACTED]

#### Secondary Quality: Competitive

Obj. No.	Monitoring indicator	Details	Baseline	Target	Due date
2.1	Project implementation support completed: Corporate Development Plan approved [Covenanted] [Donor TC]	Adoption of CDP, including FOPIP, by Putevi RS is covenanted to be 3 years after loan signing, considering the 24 months duration of the consultant's assignment.	No	Yes	[REDACTED]
2.2	Operational performance of the client: cost savings	The assignment is aimed at supporting the enhancement of the Company's performance and achieving efficiency savings of at least 5% of OPEX per km over the 2 year-period.	0	5%	[REDACTED]

#### Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	Due date
Gender SMART	Number of women enhancing their skills as a result of training	The Client will provide 30x 3-month paid internships to final-year students or recent graduates from engineering faculties, out of which 60% (18 people) will be women.	0	18	[REDACTED]
Gender SMART	Number of women receiving new employment opportunities after successful completion of training	The Client has committed to best-effort employment contracts for at least 5 women in Putevi RS following completion of their internships and degrees.	0	5	[REDACTED]

### 3. KEY PARTIES

#### 3.1 BORROWER

The Borrower is BiH. The total foreign debt on a consolidated basis at the end of 2025 stood at EUR 5.1 billion representing 17 per cent of nominal GDP of EUR 29.6 billion. External debt service in 2025 (principal and interest) amounted to EUR 643 million. Please refer to Section 5.1 for further analysis of the macroeconomic outlook.

#### 3.2 CLIENT

Putevi RS is a limited liability company incorporated in BiH and fully owned by RS. Putevi RS is responsible for the development, operation and maintenance of the main and regional roads in RS. It currently manages approximately 4,200 km of roads, out of which around 42 per cent are main roads and 58 percent are regional roads. Road maintenance is managed based on 12 zones, which are periodically contracted out to the private sector. [REDACTED]

### 4. MARKET CONTEXT

Transport infrastructure in BiH is owned by the two Entities, namely Federation of Bosnia and Herzegovina (“FBH”) and RS, and by Brcko District. The Ministry of Communications and Transport of BiH (“MOCT BiH”) is responsible for international traffic. The relevant institution in charge of transport infrastructure in FBH is the Ministry of Transport and Communications of the FBH (“MTC FBH”), while the relevant institution in RS is the Ministry of Traffic and Communications of RS (“MTC RS”). In Brcko District, the Government of Brcko District is in charge of the transport infrastructure. The overall road network in BiH totals about 24,850 km, consisting of approximately 200 km of motorways, 3,850 km of main roads, 4,700 km of regional roads, and 16,100 km of local roads.

The management of motorways and state road networks in BiH is carried out by four entity companies. In FBH these are: (a) Public Company Motorways of FBH (“PC Motorways FBH”) for motorways and high-speed roads, and (b) Public Company Roads of FBH (“PC Roads FBH”) for main roads. The regional roads are managed by the cantonal road directorates or competent cantonal ministries whereas the local roads are managed by municipalities and cities. The relevant entity companies in RS are: (a) Public Company Motorways of RS (“PC Motorways RS”) for motorways, and (b) Putevi RS (or Public Company Roads of RS) for the main and regional roads. The local government bodies are in charge of the local roads and streets in municipalities.

The Law on Roads in FBH and the Law on Public Roads in RS define the routine road maintenance activities. The routine maintenance is outsourced mainly to local construction companies. Both road agencies for public roads have several routine maintenance contracts for parts of the network, divided into lots and awarded based on competitive bidding. Despite the routine maintenance contracts, state roads in both entities in BiH cannot be considered in good condition, due to the lack of periodic maintenance and insufficient preservation funds, which limits long term planning of the road network maintenance. To address this issue, the WB, as part of their project, will finance technical assistance aimed at enhancing the Road Asset Management Systems (“RAMS”) of Putevi RS to better institutionalise the use of their existing RAMS for maintenance planning and investment prioritisation. The focus will be on the preparation of investment and maintenance plans and optimising multiannual planning, while including information on network resilience and road safety in the system. The motorway

networks in both entities are in relatively good condition due to their recent and ongoing construction efforts.

The main revenue source for all four companies is the fuel levy collected by the Indirect Tax Authority (“ITA”) of BiH. An additional significant source of revenues for roads is the vehicle registration fees collected for annual technical checks of vehicles. Additional revenue for motorways comes from tolls collected by them at toll booths. Motorway road transportation is the dominant transport mode for passengers in BiH, while railways remain an important mode for freight transport. All freight and passenger operators using roads and motorways are privately owned. Railway operators are still state owned.

## **5. FINANCIAL / ECONOMIC ANALYSIS**

### **5.1 MACROECONOMIC OUTLOOK FOR BIH**

The pace of economic growth decelerated from 3.2 per cent in 2024 to 2 per cent year on year in the first three quarters of 2025. Growth was primarily underpinned by household consumption, bolstered by rising wages and remittances, as well as by gross fixed capital formation, which grew on account of machinery and military investments, rather than construction which exhibited a slight decline. Overall economic growth was constrained by subdued external demand, domestic political instability, a decline in consumer confidence, and the impact of an increased minimum wage. From the production side, growth was driven mainly by services. The current account deficit, which widened by a half in 2024 (to 3.4 per cent of GDP), narrowed slightly in the first nine months of 2025 to 3.2 per cent of GDP, on the back of the lower merchandise trade deficit and higher secondary income surplus, while the lower surplus on the services balance acted in the opposite direction.

Inflationary pressures eased slightly in the beginning of 2026. The inflation rate slowed to 3.6 per cent in January 2026, due to slowdown in food inflation and transport. Real income gains remained strong in 2025, supported by minimum wage hikes in both entities, which boosted wages across other sectors as well. The public sector salaries were officially raised twice (in 2025 and the beginning of 2026), however due to delays in adoption of The Global Framework of Fiscal Balance and Policies for 2026-28, which is a prerequisite for adoption of 2026 budget for both entities, actual increase is postponed. Until the adoption, the institutions will function on an interim financing, set at a quarter of 2025 budget for the first quarter of 2026. The institutions worked on the interim financing for most of 2025, with the budget being adopted in November. General government deficit was at the level of 1.6 per cent of GDP in 2024, while the public debt rose modestly to 26.1 per cent of GDP, with RS showing a higher debt ratio at 36.8 per cent due to its weaker fiscal stance and rising expenditures. IMF assesses 2025 budget deficit at 2.5 per cent of GDP with debt around 30 per cent of GDP, but official data is still unavailable.

Real GDP is forecast to grow by 2.7 per cent in 2026, and 2.8 per cent in 2027 mainly due to increased consumption, driven by higher real wages and pensions, and more investments. Major risks include slowdown of external demand, and potential political tensions in 2026, an election year.

S&P affirmed BiHs ‘B+’ long-term credit rating and stable outlook in January 2026, citing solid economic growth and limited external imbalances. Moody's also affirmed BiH's B3 long-term rating with a stable outlook. In February 2026, S&P affirmed RS rating at B with negative outlook citing disputed legal status of its political leadership and government, and weakened control over its financial obligations ahead of the upcoming general election in October 2026.

## 5.2 ECONOMIC ANALYSIS

[REDACTED]

## 5.3 SENSITIVITY ANALYSIS

[REDACTED]

## 5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

# 6. OTHER KEY CONSIDERATIONS

## 6.1 ENVIRONMENT

Categorised B (ESP 2019). The Project includes the construction of a road section between Donji Kopilovi and Hum to be co-financed by the EBRD and WB (13.3 km) and associated facilities: (i) a brownfield rehabilitation component between Brod na Drini and Donji Kopilovi (5.5 km) financed by the Client, and (ii) a border bridge crossing the Tara River to Montenegro (380 m) to be financed jointly by BiH and Montenegro. The construction of all three sections does not trigger a Category A given the limited alignment change and site-specific impacts that can be mitigated. Environmental and social due diligence (“ESDD”) was undertaken by an independent consultant and included site visits, detailed field surveys and data collection, review of the Client’s environmental and social (“E&S”) documentation and technical reports in place, an audit of the Client’s capacity to manage E&S and health and safety (“H&S”) risks, and assessment of the E&S Project risks and impacts in line with EBRD’s Performance Requirements (“PRs”), as well as review of permitting requirements in line with national legislation. An environmental and social action plan (“ESAP”) has been prepared for the Project to ensure full compliance with EBRD’s PRs and agreed with the Client. The Environmental Permit for the Project has been recently re-obtained after expiry, and Construction Permit, Water Permit and Use Permit will need to be obtained for the Project in line with the ESAP. The Client’s institutional E&S capacity is supported by an established PIU.

Regarding labour risks, given that the size and structure of the workforce for construction will only be determined when the contractor is selected, a labour management plan will need to be prepared as a precaution to address potential workers influx in line with the ESAP.

The Project will cause elevated levels of noise and dust, increase in greenhouse gas (“GHG”) emissions and will generate excess soil for disposal. These impacts are addressed by the E&S management plan (“ESMP”) and ESAP actions, which will be included in the requirements of the tender documents. Waste will be adequately managed based on the contracts signed with licensed operators. Operation noise impacts are assessed as negligible, except for two residential houses located in close proximity to the road, for which precautionary passive protection measures are recommended if any exceedances of the noise limit values are confirmed by noise measurements. A wastewater treatment is foreseen for run-off water to ensure treatment prior to its discharge into the environment.

The construction phase involves technically demanding works across steep terrain, with high-risk activities for workers such as earthworks, bridge and retaining wall construction. Recreational activities such as rafting, fishing and hiking may also be affected during peak tourist months. A road safety audit has been prepared, and road safety requirements will be added to the tender documents to be incorporated in preparation of the main design. The contractor will be required to implement H&S protocols and regularly communicate with affected stakeholders to

minimise disruptions to road users. The upgraded road will significantly improve alignment, visibility and travel conditions, reducing accident rates and enhancing access in the region.

The land expropriation procedure for the Project commenced in 2021 with 66 expropriation cases initiated, covering a total of 121 land plots, and the process is nearly complete. The main design will be prepared by the construction contractor, which can result in additional land take not estimated to be significant. A resettlement framework policy (“RFP”) has been prepared as part of the ESDD, in line with the EBRD PR5 and WB requirements and will be disclosed. Following completion of the main design and preparation of an updated expropriation study in line with local legislation, including census with socio-economic data collection to confirm entitlements, a resettlement action plan (“RAP”) will be developed if any additional acquisition or impacts are identified, as stipulated by ESAP.

The biodiversity impact assessment identified habitats and species of conservation concern in the ecologically appropriate area of analysis. One of the associated facilities of the Project (border bridge with connection to Montenegro) has limited encroachment into locally protected areas Nature Park Tara in BiH and Nature Park Piva in Montenegro. Critical habitat assessment (“CHA”) and appropriate assessment (“AA”) were conducted to further inform the design of adequate measures, based on which a biodiversity management plan (“BMP”) has been prepared to guide the application of the mitigation hierarchy to address biodiversity impacts. Spawning areas of fish and known roosting areas for bats will not be affected by the Project. Complimentary conservation measures are also stipulated by the BMP to further ensure no net loss/gain.

One culturally significant site, the Hum-Bastasi Mosque, is located near the planned bridge works in Hum, approximately 20 m from the viaduct alignment. No physical impacts to the mosque are expected, however temporary disturbances such as noise or access disruptions may occur during construction. The ESAP stipulates a measure for the contractor to coordinate with the mosque representatives to minimise construction disruptions, provide advance notice of works, have a chance finds procedure in place for excavation works, avoid major religious dates to the extent possible, ensure access, and implement noise, dust and vibration controls.

A series of consultation meetings with different stakeholders were held as part of the due diligence, as documented in the Stakeholder Engagement Plan (“SEP”). The SEP, BMP, RFP, ESMP, and Non-technical Summary (“NTS”) will be publicly disclosed. The Bank will monitor the implementation of the Project through review of annual monitoring reports and visits as required.

## **6.2 INTEGRITY**

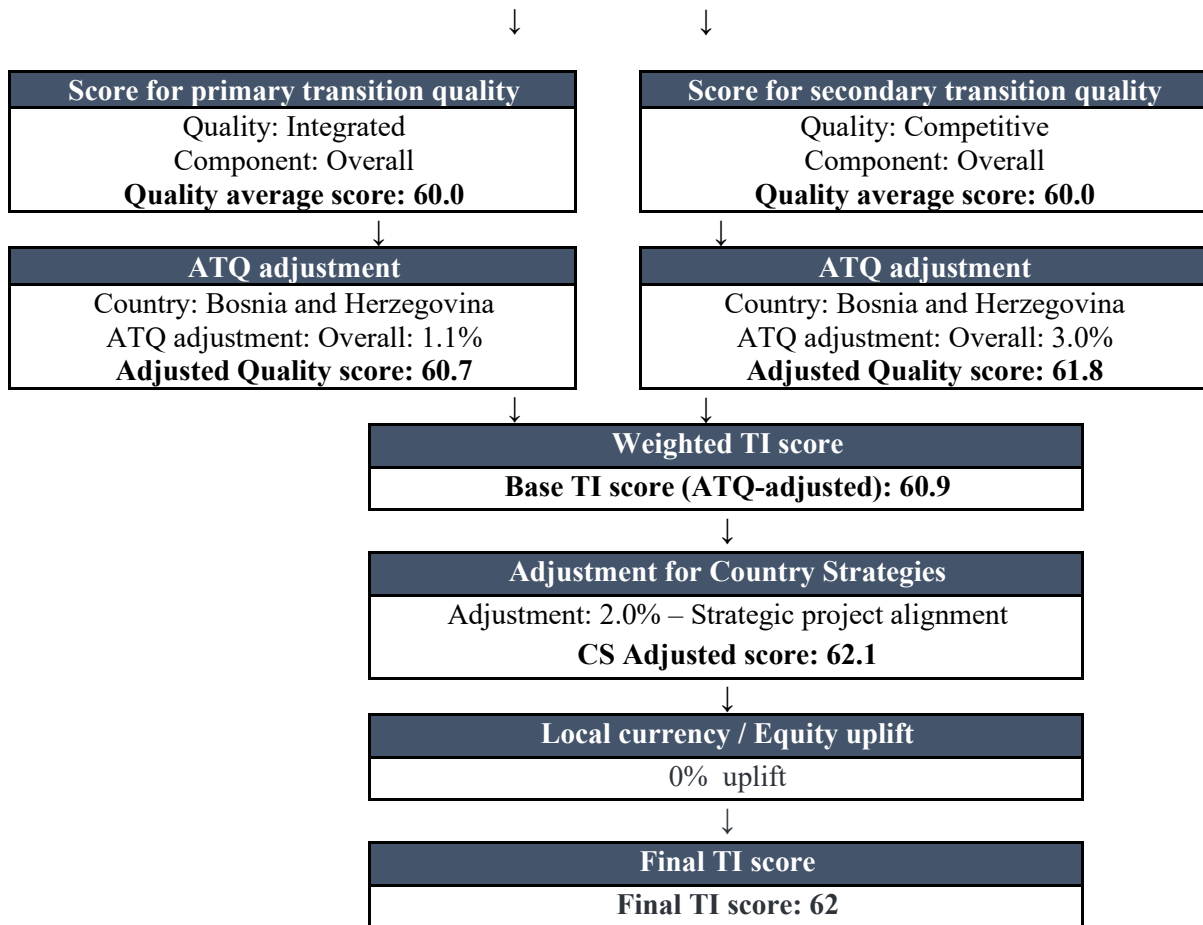
In conjunction with OCCO, integrity due diligence was conducted on Putevi RS, its senior management, and other relevant parties. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the Project, and the Project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the Project.

**ANNEXES TO OPERATION REPORT**

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	GREEN ASSESSMENTS
ANNEX 3	PROJECT IMPLEMENTATION

## ANNEX 1: TRANSITION IMPACT SCORING CHART



## ANNEX 2: GREEN ASSESSMENTS

### SUMMARY

- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **25 per cent GET for climate adaptation**, following the methodology set out in the GET Handbook.
- Climate-related financial risks have been assessed [REDACTED]

### PARIS ALIGNMENT ASSESSMENT

#### *Alignment with the mitigation goals of Paris Agreement*

The Project is consistent with the BiH Nationally Determined Contribution (“NDC”). BiH submitted<sup>3</sup> an enhanced NDC for the period 2020-2030 in April 2021. A long-term strategy (LTS) is not yet submitted.<sup>4</sup> In the enhanced NDC, there is no specific exclusion for new road infrastructure. In terms of emissions reductions contributions, the NDC indicates an unconditional GHG emissions reductions target for 2030 of 12.8% compared to 2014. Transport contributes 12% of total emissions in 2014. The NDC does not quantitatively disaggregate further the contribution of individual sectors emissions reductions to the unconditional target. As such, it is not possible to draw any further conclusions from the NDC.

The Project is consistent with a low-carbon pathway (LCP). In the absence of a national low-carbon pathway for passenger and freight connectivity, the Bank assessed the Project against the regional LCP - the ‘Strategy for Sustainable and Smart Mobility in the Western Balkans’ (“SSMS”).<sup>5</sup> The SSMS aligns countries in the Western Balkans with EU ambition on transport decarbonisation. Of relevance for this specific Project, the SSMS states “by 2050, 90 per cent of all cars, vans, buses as well as new heavy-duty vehicles to be zero-emission.” As such, consistency of the Project with the LCP primarily entails being compatible with EVs and other alternative fuel vehicles, and being able to accommodate infrastructure required for charging of future low-carbon vehicle fleets. The Project section is 13.3km long crossing a very mountainous area without service stations, just a small panoramic rest area with no access to the grid. The proposed EU Alternative Fuels Infrastructure Regulation (“AFIR”) as part of the Fit for 55 regulatory package indicates that a charging station should be made available at least every 60km on main highways. Application of this framework in this context as a proxy suggests that no specific provision for charging infrastructure along the route is required to demonstrate consistency with the global LCP.

The Project demonstrates a low-risk of carbon lock-in. Road infrastructure delivers passenger and freight connectivity, and the infrastructure needs to be considered in the context of a wider transportation system alongside other modes. This Project is part of the Sarajevo – Podgorica route which belongs to the Route 2b of the TEN-T network extension in the Western Balkans, conceived alongside alternative modes, including rail. Significant investment is needed in the BiH rail network to (a) bring it up to modern standards in terms of efficiency, speed and reliability and (b) connect further with hinterland and in-land European capitals. EBRD has actively tried to support investments in the rail sector in the country but it has not been possible to succeed due

<sup>3</sup> <https://unfccc.int/NDCREG>

<sup>4</sup> <https://unfccc.int/process/the-paris-agreement/long-term-strategies>

<sup>5</sup> <https://www.transport-community.org/wp-content/uploads/2021/06/Strategy-for-Sustainable-and-Smart-Mobility-in-the-Western-Balkans.pdf>

to the investment amounts required, needing large amounts of grants from donors that were not made available from reasons external to the EBRD. Whilst it is recognised that further investment is needed in rail connections in BiH, the Project does not lock-out increased investments in, and usage of, rail transportation. Carbon lock-in assessment also looks at whether there is a high likelihood of transition to low-carbon vehicle fleets within the lifespan of the asset. Scenarios for fleet electrification were prepared for the Bank as part of technical due diligence to inform the economic assessment. The scenarios set out the expected uptake of electric vehicles based on current market trends and scenarios. Conservative scenarios see a significant displacement of internal combustion engine vehicles in the overall fleet (at least 40% with conservative assumptions on adoption in Western European markets) over the lifespan of the asset. Given that the Project is conceived in the context of an integrated planning process (TEN-T), is an inter-urban road (as opposed to urban roads that present a higher risk of carbon lock-in), does not prevent alternative modes from being developed, and there is a high likelihood of transition to low carbon vehicle fleets, the risk of carbon lock-in is assessed as low.

The Project is economically viable, incorporating a shadow price of carbon. The Project has a net decrease of 9.1kt CO<sub>2</sub>e per year compared to a baseline scenario. The road upgrade will increase average speeds and attract traffic from longer routes. This will result in lower consumption of fuel and therefore in a decrease of CO<sub>2</sub> emissions. The traffic and economic assessment of the Foca-Hum section results in a positive economic case incorporating a shadow price of carbon, compared with a no-Project scenario.

Based on the assessments undertaken above, the Project is considered aligned with the mitigation goals of the Paris Agreement.

***Conclusion:** The Project is assessed as aligned with the mitigation goals of Paris Agreement (BB1 aligned).*

### ***Alignment with the adaptation goals of Paris Agreement***

A comprehensive climate risk assessment identified landslides, from erosion and pluvial flooding as the major hazard of relevance for the road, with wildfires and snowfall as potentially material in one section of the road. Suitable resilience measures will be included in the Project (see GET section below). Such specific measures include the landslide protection measures (such as retaining structures) and operational measures to mitigate other risks. In addition, the Project does not undermine the resilience of wider systems and is not inconsistent with the national policy for context adaptation.

***Conclusion:** The Project is assessed as aligned with the adaptation goals of Paris Agreement (BB2 aligned).*

### **GET attribution**

A GET share of 25 per cent for adaptation is attributed to the Project, following the methodology set out in the GET Handbook. The three step approach in line with j-MDB methodology for attribution of climate adaptation finance is presented below.

#### ***Step 1 – Climate vulnerability context***

In the context of this investment the EBRD engaged an independent consultant to assess the road section from Foca to Hum, mapping in detail the exposure of the road to climate vulnerabilities. This climate risk assessment identified landslides from erosion and pluvial flooding as the major vulnerability for the road. Historical records confirm recurring landslide events along the existing M18 road, indicating a pattern of slope instability. Additionally, intense rainfall and seasonal

snowmelt often cause pluvial flooding from torrential streams, further increasing the risk of landslides. Due to the combination of documented historical occurrences and existing terrain and climate conditions, this risk is material for the Project. Wildfires and snow/ice events were also assessed as potentially material risks. Extreme heat had been identified during screening but after assessing the changes in temperature range it was assessed as non-material for the road.

### ***Step 2 – Statement of intent***

The EBRD engaged with the Client to improve the resilience of the Project to the identified climate hazards, in particular landslides, from erosion and pluvial flooding. A technical assessment of the existing Main Design was carried out by an independent consultant. While the Main Design includes measures to mitigate the potential impacts of pluvial floods, landslides and erosion, certain gaps were identified in available geotechnical data to develop viable, safe and durable design. Considering the complexity of the alignment and the geotechnical conditions on site, it was concluded that the field investigations were inadequate in both scope and quality and do not fully comply with current national and international legislation hence requiring additional investigations. As such, recommendations for further Project design and implementation have been proposed in accordance with the FIDIC Yellow Book contract, and depending on the results of the additional geotechnical investigations, additional adaptation measures to adequately address landslide risks will be incorporated during the detailed design phase. An uncommitted tranche of EUR 12 million has been included to finance potential cost over-runs that may arise to address additional adaptation and road safety measures.

### ***Step 3 – Link between climate vulnerability and project activities***

A number of climate resilience measures are already integrated into the design and operation of the Project. These measures are designed to reduce the exposure of the system to a hazard; reduce the consequence of a hazard event; or improve the recovery from a hazard impact.

Specific measures within the Project that address the identified vulnerabilities include, among others:

- For landslide protection, the Main Design incorporates numerous retaining structures. In areas with heightened stability concerns, specific modifications were introduced to these walls to meet geo-mechanical requirements, including the addition of reinforced concrete beams and 600 mm reinforced concrete piles at selected locations.
- Retaining structures designed for a 50-year lifetime; drainage system dimensioned according to a 100-year return period.
- Before construction, the Designer/Contractor must conduct additional geotechnical investigations in accordance with Eurocode 7. Particular attention should be given to areas identified as landslide-prone in the geotechnical documentation, especially at cut locations. Based on the results of these investigations, the following will be required:
  - Local realignments of the route to reduce cut heights and the associated landslide/erosion risk.
  - Construction of integral bridge solutions instead of typical bridges, given their greater structural redundancy, resilience, and improved durability due to reduced ingress of de-icing salts.
  - In areas where high embankments are currently supported by reinforced concrete walls, the use of bridging structures (e.g., viaducts) or reinforced earth structures, which provide safer and more stable solutions.

- Moreover, all retaining structure calculations should be carried out in accordance with Eurocode standard 6, representing current best practice in structural and geotechnical engineering. Design and calculations should account for all relevant effects, including soil-structure interaction, temperature effects, braking forces, wind, and seismic actions.

In addition, a detailed list of operational measures during construction and operations is provided in “Table 31: Identified impacts/risks and proposed mitigation measures related to climate” of the Environmental and Social Assessment Report of the Project. These measures also address moderately material risks such as wildfires and snowfall.

### ***GET Adaptation Finance Attribution***

The GET adaptation finance assessment is based on reductions in both weather-related damage to the road infrastructure and weather-related disruption to traffic on the road network, that result from financing and implementing a climate-resilient road design. Specifically, the landslide protection measures will reduce vulnerability to damage and disruption from extreme heat events.

Following the GET adaptation methodology adopted in August 2023 the Project:

- Delivers physical Climate Resilience Outcome (“CRO”), specifically in response to extreme mass movements and pluvial floods, by ensuring the integration of adaptation measures in the project design mitigating risk of disruption and damage (+10 per cent GET);
- Project documentation demonstrates that a dedicated climate risk and vulnerability assessment has been undertaken referencing relevant international standards and guidance (+5 per cent GET);
- CRO higher than 10 per cent resulting from weather-related disruption and damage savings (+10 per cent GET).

**The GET adaptation attribution of the Project is therefore 25 per cent.**

[REDACTED]

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<sup>6</sup> EN 1990 – Eurocode 0: Basis of Structural Design, EN 1991 – Eurocode 1: Actions on Structures, EN 1992 – Eurocode 2: Design of Concrete Structures, EN 1998 – Eurocode 8: Design of Structures for Earthquake Resistance

## ANNEX 3: PROJECT IMPLEMENTATION

### Procurement classification – *Public sovereign*

[REDACTED]

#### **Project implementation arrangements:**

The PIU will be established by Putevi RS. The works contracts will be supervised by international consultants financed by the WB. The Bank will monitor the use of proceeds through regular meetings with the PIU, reports from the supervision and Project implementation consultant, and monitoring visits during Project implementation.

The co-financed works contract involves certain technical complexity. The main risk is represented by challenging geological and geotechnical conditions, landslide-prone areas and limited existing road infrastructure. The final selected alignment may also have land ownership implications which shall be clarified prior commencement of works. This may affect the implementation schedule of the works contract, as contractor would spend more time planning on logistics and managing the risk during the contract implementation. This issue is well-known to the Client as it has been raised during the due diligence assessment. In addition, the lack of the Client's capacity to conduct the required activities during Project implementation would be mitigated with the mobilization of a works supervision engineer which should also provide support as PIU consultant.

#### **Procurement arrangements:**

The Project is classified as public sector for procurement purposes. The EBRD and the WB have agreed that the WB shall act as the lead financier for procurement purposes. The respective roles of the EBRD and the WB in the procurement and subsequent contract administration process will be governed by the PIA between the EBRD and the WB which is based on the EBRD/WB Mutual Reliance Agreement.

The Project will be implemented through a number of contracts as detailed in the attached Procurement Plan. However, only the main works contract will be jointly financed together with the WB and it will be procured in accordance with the PFA. This approach is consistent with Article 2.6 of the Bank's PPR which states that the Bank's PPR does not apply to the procurement of works when a project is co-financed under an arrangement reached by the Bank with another multilateral or bilateral development institution and where such institution undertakes the leading role in monitoring procurement activities in line with its own procurement procedures. The tender document will be based on the WB standard tender document for works. Following the subsequent tender evaluation process, and prior to the issue any no-objection to the proposed contract award, the WB will provide EBRD with full details of the entity proposed for contract award to enable EBRD to verify the eligibility of the entity for EBRD financing prior to contract award.

In addition to the works contract, the WB will also solely finance the Supervision Engineering contract while the EBRD will solely finance the FOPIP and CDP. The FOPIP and CDP consultancy contract will be procured following single stage with two envelopes process under the EBRD PPR. A contingency for ad-hoc consultancy support to Project implementation will be financed by EBRD loan and subject to Bank's PPR.

#### **Contracting Arrangements:**

The main works contract to be jointly financed by the WB and EBRD will be contracted in accordance with the FIDIC Conditions of Contract for Plant & Design-Build (Yellow Book).

[REDACTED]