

CONFORMED COPY

LOAN NUMBER 7629 BA
CREDIT NUMBER 4540 BA

Federation Project Agreement

(Second Solid Waste Management Project)

among

INTERNATIONAL BANK

FOR

RECONSTRUCTION AND DEVELOPMENT,

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated June 25, 2009

LOAN NUMBER 7629 BA
CREDIT NUMBER 4540 BA

PROJECT AGREEMENT

Agreement dated June 25, 2009, entered into among INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”), INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association) (the Bank and the Association herein collectively referred to as “the Bank”) and FEDERATION OF BOSNIA AND HERZEGOVINA (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) of even date herewith between Bosnia and Herzegovina (“Borrower”) and the Bank and the Financing Agreement (“Financing Agreement”) of even date herewith between the Borrower and the Association. The Bank, the Association and the Project Implementing Entity hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to, respectively, the Loan Agreement and the Financing Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Loan Agreement, the Financing Agreement or the General Conditions.

ARTICLE II - PROJECT

- 2.01. The Project Implementing Entity declares its commitment to the objectives of the Project. To this end, the Project Implementing Entity shall carry out Part 1 of the Project in accordance with the provisions of Article V of the International Bank for Reconstruction and Development General Conditions for Loans and Article IV of the International Development Association General Conditions for Credits and Grants, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Bank and the Project Implementing Entity shall otherwise agree, the Project Implementing Entity shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - TERMINATION

- 3.01. For purposes of Section 8.05 (c) of the International Development Association General Conditions for Credits and Grants, the date on which the provisions of this Agreement shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE IV - REPRESENTATIVE; ADDRESSES

- 4.01. The Project Implementing Entity's Representative is the Minister of Finance of the Federation of Bosnia and Herzegovina.
- 4.02. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, NW
Washington, DC 20433
United States of America

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

- 4.03. The Project Implementing Entity's Address is:

Federal Ministry of Finance
Mehmeda Spahe 5
71000 Sarajevo
Bosnia and Herzegovina

Facsimile:

387 33 203 152

AGREED at Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Jane Armitage

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Jane Armitage

Authorized Representative

FEDERATION OF BOSNIA AND HERZEGOVINA

By /s/ Borjana Kristo

Authorized Representative

SCHEDULE

Execution of the Project Implementing Entity's Respective Part of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Project shall be implemented under the overall responsibility of FMET in the Federation. The Federation PMU, which shall report to FMET, shall be responsible for Project management, including procurement and financial management, in the Federation.
2. PITs shall be established in each Participating Utility managing a landfill site under the Project. PITs shall handle procurement and financial aspects in relation to their respective landfill site under the Project, which shall be subsequently reviewed by the Federation PMU to ensure compliance with Bank guidelines and procedures. PITs shall report to the Federation PMU at least on a quarterly basis.

B. Implementation Covenants and Safeguards

1. The Project Implementing Entity shall maintain the Federation PMU, at all times during Project implementation, with terms of reference and resources satisfactory to the Bank, and with competent staff in adequate numbers.
2. The Project Implementing Entity shall:
 - (a) duly perform all obligations under the Operational Manual and the EF in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and
 - (b) not amend or waive, or permit to be amended or waived the Operational Manual or the EF or any provisions of any one thereof, except with the prior written approval of the Bank.
3. The Project Implementing Entity shall ensure that no private land shall be affected by the Project and that no land acquisition or resettlement shall be required.
4. The Project Implementing Entity, through the Federation PMU, shall, by October 31 of each year during the implementation of the Project, furnish to the Bank the annual implementation work programs for the Project for the next calendar year, including procurement and financing plans, and by November 30 each year review these plans with the Bank before implementing them.

C. Subsidiary Agreements

1. To facilitate the carrying out and financing of Part 1 of the Project, the Borrower shall: (a) make part of the proceeds of the Loan available to the Project Implementing Entity under a subsidiary agreement between the Borrower and the Project Implementing Entity (“Federation Subsidiary Agreement”); and (b) make part of the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Borrower and the Project Implementing Entity (“Federation Subsidiary Financing Agreement”), all under terms and conditions approved by the Bank and including the Anti-Corruption Guidelines, for on-lending by the Project Implementing Entity to its Participating Utilities on terms and conditions set forth in Part D, Section I of Schedule 2 to, respectively, the Loan Agreement and the Financing Agreement.

2. The Project Implementing Entity shall exercise its rights under, respectively, the Federation Subsidiary Agreement and the Federation Subsidiary Financing Agreement in such manner as to protect the interests of the Project Implementing Entity and the Bank and to accomplish the purposes of the Loan and the Financing. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive said Agreements or any provision thereof.

D. Sub-projects

1. For purposes of Parts 1.A and 1.B of the Project, the Project Implementing Entity shall, on-lend proceeds of the Loan and the Financing, as the case may be, to its Participating Utilities under a Subsidiary Credit Agreement to be entered into between the Project Implementing Entity and each Participating Federation Utility, in accordance with eligibility criteria and procedures set forth in the Operational Manual, under terms and conditions which shall have been approved by the Bank and including the Anti-Corruption Guidelines, and which shall include the following:

(a) for purposes of Part 1.A of the Project, each sub-project proposal shall include a feasibility study and an Environmental Assessment for the proposed landfill site, prepared in accordance with the EF and in form and substance satisfactory to the Bank;

(b) sub-project proposals shall be selected, appraised, implemented and evaluated in accordance with the principles and procedures set forth in the Operational Manual, the Procurement Guidelines, the Anti-Corruption Guidelines and the EF and on the basis of the relevant Environmental Assessment, the Eligibility Criteria for Technical Assistance and the Eligibility Criteria for Investment Funding;

(c) implementation progress for each sub-project shall, within eighteen (18) months from the date of the relevant Subsidiary Credit Agreement, be measured by the Federation PMU and the relevant PIT on the basis of the action plan and performance targets provided in said Agreement and satisfactory to the Bank. In the event that said

progress does not meet said plan and targets, the Federation PMU, in consultation with FMET and the Bank, shall determine whether the unused amount of said credit should be transferred to another Participating Utility; and

(d) for purposes of Part 1.A (ii), funding requests for closure of wild dump sites in individual municipalities shall demonstrate that: (i) the given municipality is a member of the Inter-Municipal Board of a regional solid waste Utility; and (ii) the solid waste originally disposed at the wild dump site is managed at a regional sanitary landfill.

2. The Project Implementing Entity shall obtain rights adequate to protect its interests and those of the Bank, including the right to:

(a) suspend or terminate the right of the Participating Utility to use the proceeds of the Subsidiary Credit, or accelerate or obtain a refund of all or any part of the amount of said credit, upon the Participating Utility's failure to perform any of its obligations under the Subsidiary Credit Agreement;

(b) seek a refund of all or part of the Subsidiary Credit in the event that progress in implementing a given sub-project under said credit does not meet the action plan and performance targets provided in the relevant Subsidiary Credit Agreement; and

(c) require each Participating Utility to: (i) carry out its obligations under the Subsidiary Credit Agreement with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower, and the EF; (ii) provide, promptly as needed, the resources required for the purpose; (iii) procure the goods, works and services to be financed out of the Subsidiary Credit Agreement in accordance with the provisions of this Agreement and the Procurement Guidelines; (iv) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the progress of the sub-project and the achievement of its objectives; (v) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project; and (B) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank; (vi) enable the Borrower and the Bank to inspect the sub-project, its operation and any relevant records and documents; and (vii) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

3. The Project Implementing Entity shall exercise its rights under each Subsidiary Credit Agreement in such manner as to protect the interests of the Project Implementing

Entity and the Bank and to accomplish the purposes of the Loan and the Financing. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive any Subsidiary Credit Agreement or any of its provisions.

E. Anti-Corruption

The Project Implementing Entity shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Project Implementing Entity, through the Federation PMU, shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 5.08 (b) of the International Bank for Reconstruction and Development General Conditions for Loans and Section 4.08 of the International Development Association General Conditions for Credits and Grants and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Borrower not later one (1) month after the end of the period covered by such report for incorporation and forwarding by the Borrower to the Bank of the overall Project Report.

2. The Project Implementing Entity, through the Federation PMU, shall provide to the Borrower not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the International Bank for Reconstruction and Development General Conditions for Loans and Section 4.08 (c) of the International Development Association General Conditions for Credits and Grants all such information as the Borrower or the Bank shall reasonably request for the purposes of that Section.

B. Financial Management, Financial Reports and Audits

1. The Project Implementing Entity, through the Federation PMU, shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations and financial condition of the Project Implementing Entity, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Project Implementing Entity, through the Federation PMU, shall have its financial statements referred to above audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank.

Each audit of these financial statements shall cover the period of one (1) fiscal year of the Project Implementing Entity. The audited financial statements for each period shall be furnished to the Borrower and the Bank not later than six (6) months after the end of the period.

Section III. Procurement

All goods, works and services required for the Project Implementing Entity's Respective Part of the Project and to be financed out of the proceeds of the Loan and the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to, respectively, the Loan Agreement and the Financing Agreement.

Section IV. Other Undertakings

1. The Project Implementing Entity shall open and thereafter maintain, throughout the duration of the Project, an account in a commercial bank, on terms and conditions satisfactory to the Bank, wherein it shall deposit its contribution to the financing of the Project.

2. The Project Implementing Entity shall ensure that, in accordance with the action plan and performance targets set forth in the respective Subsidiary Credit Agreements:

(a) each Participating Federation Utility shall cover all operating and maintenance costs, including depreciation. Each such Utility shall provide financial forecasts by October 31 of each year of Project implementation to ensure that the projected operating revenues are sufficient to meet operating and maintenance expenses for the following financial year. If this requirement cannot be met, the Participating Federation Utilities shall be required to adopt necessary measures, including adjustments of the structure or level of its rates;

(b) each Participating Federation Utility shall maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with the accounting standards acceptable to the Bank, consistently applied, adequate to reflect its operations and financial conditions and to register separately the operations, resources and expenditures related to the Project;

(c) a Participating Federation Utility shall not incur any debt unless a reasonable forecast of such Utility's revenues and expenditures shows that the estimated net revenue of the Utility for each fiscal year during the term of debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Utility in such year on all debt of the Utility, including the debt to be incurred;

(d) the records, accounts and financial statements of each Participating Federation Utility for each fiscal year are audited, in accordance with appropriate auditing principles consistently applied, by independent auditors satisfactory to the

Borrower and the Bank, and furnish to the Borrower and the Bank not later than six (6) months after the end of such year certified copies of the financial statement for such year so audited and report of such audit by the auditors of such scope and such detail as the Borrower or the Bank shall have reasonably requested; and

(e) the Participating Federation Utilities shall have their assets revalued based on assessment carried out by a qualified independent organization in accordance with terms of reference, both acceptable to the Bank.

3. The Project Implementing Entity shall ensure that each Participating Federation Utility shall prepare an action plan on planned investments not identified in the Procurement Plan. Said action plan shall include a description of the proposed investment, an estimate of project costs and expenses, procurement plan, economic and financial analysis and analysis of the priority of the proposed investment/expenditure in terms of its costs effectiveness and social impact. Upon approval by the Bank of said action plan, disbursement will be authorized for these specific investments.