

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3927 BOS

RS Project Agreement

(Second Employment Support Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated July 21, 2004

CREDIT NUMBER 3927 BOS

PROJECT AGREEMENT

AGREEMENT, dated July 21, 2004 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the REPUBLIKA SRPSKA (Republika Srpska, or RS).

WHEREAS (A) by the Development Credit Agreement of even date herewith between Bosnia and Herzegovina (the Borrower) and the Association, the Association has agreed to lend to the Borrower an amount in various currencies equivalent to eight million two hundred thousand Special Drawing Rights (SDR 8,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Republika Srpska agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary credit agreement to be entered into between the Borrower and Republika Srpska (the Subsidiary Credit Agreement), the Borrower will make available to Republika Srpska a portion of the proceeds of the Credit provided for under the Development Credit Agreement on terms and conditions set forth in said Subsidiary Credit Agreement; and

WHEREAS Republika Srpska, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of Part B of the Project

Section 2.01. (a) Republika Srpska declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall

carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, labor, financial, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Republika Srpska shall otherwise agree, Republika Srpska shall carry out Part B of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 2 to this Agreement.

Section 2.03. Republika Srpska shall duly perform its obligations under the Subsidiary Credit Agreement. Except as the Association shall otherwise agree, Republika Srpska shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Credit Agreement or any provision thereof.

Section 2.04. (a) Republika Srpska shall, at the request of the Association, exchange views with the Association with regard to the progress of Part B of the Project, the performance of its obligations under this Agreement and under the Subsidiary Credit Agreement, and other matters relating to the purposes of the Credit.

(b) Republika Srpska shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Republika Srpska of its obligations under this Agreement and under the Subsidiary Credit Agreement.

Section 2.05. (a) Republika Srpska shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part B of the Project.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Federation shall:

- (i) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and Republika Srpska a plan for the future operation of Part B of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with Republika Srpska on said plan.

ARTICLE III

Financial Covenants

Section 3.01. (a) Republika Srpska shall maintain a financial management system, including records and accounts, and prepare financial statements, in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) Republika Srpska shall:

- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts and audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

Section 3.02. (a) Without limitation upon Republika Srpska's reporting obligations set out in paragraph 4 of Schedule 1 to this Agreement, Republika Srpska shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than forty-five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 3.03 Republika Srpska shall cause the RDEF to ensure that Participating RS ESOs maintain appropriate financial records and accounts for each Annual Service Delivery Agreement and the Service Contracts related thereto, which records and accounts:

(a) will be in accordance with consistently applied accounting standards acceptable to the Association;

(b) will be adequate to reflect the operations, resources and expenditures related to the Service Contracts to which the Participating RS ESOs are each respectively a party; and

(c) will be provided to the RDEF auditors appointed under Section 3.01(b)(i) of this Agreement.

ARTICLE IV

Effective Date; Termination;

Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the later of:

- (i) the date upon which the Development Credit Agreement becomes effective; and
- (ii) the date when this Agreement has been executed by the parties hereto.

Section 4.02. (a) This Agreement and all obligations of the Association and of Republika Srpska thereunder shall terminate on the earlier of the two following dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify Republika Srpska of this event.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other addresses as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS

Washington, D.C.

Telex:

248423 (MCI) or

64145 (MCI)

Facsimile:

(202) 477-6391

For Republika Srpska:

Ministry of Finance of Republika Srpska
Ul. Vuka Karadzica 4
78000 Banja Luka
Bosnia and Herzegovina

Facsimile:

387 51 331351

Section 5.02. Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Agreement on behalf of Republika Srpska or by Republika Srpska on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Minister of Finance, or by such other person or persons as Republika Srpska shall designate in writing, and Republika Srpska shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Shengman Zhang

Authorized Representative

REPUBLIKA SRPSKA

By /s/ Dragan Cavic

Authorized Representative

SCHEDULE 1

Implementation Program

1. Republika Srpska shall maintain the RDEF until the completion of the Project, with adequate staff, funds, facilities and other resources required for this purpose in a manner satisfactory to the Association. The RDEF shall be responsible for the overall implementation, management, coordination, supervision and monitoring of Part B of the Project in accordance with arrangements satisfactory to the Association.
2. Republika Srpska shall adopt and thereafter maintain the Operations Manual, and shall also maintain the Subsidiary Credit Agreement, in form and content satisfactory to the Association, and shall duly perform all its obligations under the Operations Manual and the Subsidiary Credit Agreement and shall not take or concur in any action which would have the effect of amending, assigning, abrogating or waiving the Operations Manual or the Subsidiary Credit Agreement without obtaining the prior approval of the Association.
3. Republika Srpska shall maintain the Project Account in a commercial bank, on terms and conditions satisfactory to the Association, wherein shall be deposited:
 - (i) its share of the Project costs for the implementation of the Project, and replenish such account on a quarterly basis in an amount of \$10,000 equivalent, during the implementation of the Project; and
 - (ii) the monies payable by the Participating RS ESOs in accordance with the terms of the Annual Service Delivery Agreements.
4. Republika Srpska shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Association, the carrying out of Part B of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about October 31, 2006 integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of Part B of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of Part B of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Association, by November 30, 2006, or such later date as the Association shall request, the report referred to in subparagraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part B of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter, including, without limitation, such

measures as to the Association may seem reasonably warranted in the circumstances if the Borrower and the Association should then agree that certain Project implementation-related functions and responsibilities initially discharged by the RDEF would be assumed by the regional employment service offices in Republika Srpska until completion of the Project.

5. Republika Srpska shall implement Parts B.1, B.2 and B.3 of the Project in accordance with the Operations Manual and with the selection criteria, the procedures and upon the terms and conditions set forth in the Operational Manual.

6. Republika Srpska shall cause the RDEF to enter into Annual Service Delivery Agreements with Participating RS ESOs, as well as Service Contracts with Participating RS ESOs and a private or public entity selected by the RDEF and the relevant Participating RS ESO, in accordance with the terms and conditions, as well as the selection criteria, provided in the Operations Manual.

SCHEDULE 2

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods under Part B of the Project which meet the requirements of paragraph 3.7 of the Guidelines, may, with the Association’s prior agreement, be procured in accordance with the provisions of said paragraph 3.7 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of

all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to: (i) each contract procured under Part B of this Schedule; and (ii) the first two contracts procured under Parts C.1 and C.2 of this Schedule; the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Section I and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Schedule.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services under Parts B.1, B.2 and B.3 of the Project, estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedure for the Selection of Consultants

1. Least-cost Selection

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for tasks that meet the requirements set forth in paragraph 3.10 of the Consultant Guidelines or for Project audits, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated at least once every twelve (12) months during the execution of the Project, for the succeeding eighteen (18) month period, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, as well as each contract awarded on a sole source basis for firms; (ii) all contracts for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more; and (iii) all contracts for the employment of individual consultants selected on a sole source basis; the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.