

CONFORMED COPY  
CREDIT NUMBER 3070 BOS

Project Agreement

(Emergency Pilot Credit Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated as of June 11, 1998

CREDIT NUMBER 3070 BOS

PROJECT AGREEMENT

AGREEMENT, dated as of June 11, 1998 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and Republika Srpska (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 three million seven hundred thousand Special Drawing Rights (SDR 3,700,000) on the terms and conditions set forth in the Development Credit Agreement, but only on condition that RS agrees to undertake such obligations toward the Association as are set forth in this Agreement; and

(B) by a subsidiary finance agreement to be entered into between the Borrower and RS (the Subsidiary Finance Agreement) the proceeds of the Credit provided for under the Development Credit Agreement will be made available to RS on terms and conditions set forth in said Subsidiary Finance Agreement;

WHEREAS RS 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 the Project; Management and Operations of RS

Section 2.01. (a) RS 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 the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental 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 RS shall otherwise agree, RS shall carry out the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. (a) RS undertakes that, unless the Association shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) RS shall exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Association and of RS; (ii) comply with its obligations under this Agreement and the Subsidiary Finance Agreement; and (iii) achieve the purposes of the Project.

Section 2.03. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part E 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 2.04. RS shall duly perform all its obligations under the Subsidiary Finance Agreement. Except as the Association shall otherwise agree, RS shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Finance Agreement or any provision thereof.

Section 2.05. (a) RS shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Finance Agreement, and other matters relating to the purposes of the Credit.

(b) RS 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 RS of its obligations under this Agreement and under the Subsidiary Finance Agreement.

Section 2.06. (a) RS 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 the Project.

(b) For the purposes of Section 9.07 of the General Conditions and without limitation thereto, RS 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 RS, a plan for the future operation of the Project; and
- (ii) afford the Association reasonable opportunity to exchange views with RS on said plan.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) RS shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial conditions and to register separately the operations, resources and expenditures related to the Project of the departments or agencies of RS responsible for carrying out the Project or any part thereof.

(b) RS shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for Each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association, who shall be employed by September 30, 1998, on terms and conditions satisfactory 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: (A) certified copies of the financial statements referred to in paragraph (a) above for such year as so audited; and (B) the report of such audit by said auditors of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and financial statements as well as the audit thereof, as the Association shall from time to time reasonably request.

### ARTICLE IV

#### Effective Date; Termination Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

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

- (i) the date on which the Development Credit Agreement shall terminate; or
- (ii) a date twenty (20) years after the date of this Agreement.

(b) If the Development Credit Agreement terminates before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify RS 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, telegram, cable, telex or radiogram 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. 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:

INTBAFRAD  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

For Republika Srpska:

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

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 RS or by RS 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 RS shall designate in writing, and RS 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 Banja Luka, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ S.Mitra

Authorized Representative

REPUBLIKA SRPSKA

By /s/ B. Plavsic

Authorized Representative

SCHEDULE 1

Implementation Program

A. Project Management

1. RS shall maintain the PCU until completion of the Project with adequate staff, funds, facilities and other resources required for this purpose in a manner satisfactory to the Association. The PCU shall be responsible for the overall implementation and coordination of the Project.

2. PCU shall maintain the Operational Guidelines in form and content satisfactory to the Association and duly perform all its obligations under the Operational Guidelines and shall not assign, amend, abrogate or waive the Operational Guidelines without obtaining the prior approval of the Association.

3. RS shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators acceptable to the Association, the carrying out 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, by February 28 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above, on the progress achieved in carrying out 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 the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31 of each year, or such later date as the Association shall request, the report referred to in paragraph (b) above, and thereafter take all measures required to ensure the efficient completion 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.

B. Part A of the Project

1. Except as the Borrower and the Association shall agree, the Subsidiary Finance Agreement shall contain the following Project implementation arrangements for purposes of Part A of the Project. RS shall maintain or cause to be maintained a separate credit line section within the PCU, with staff and other resources and terms of reference satisfactory to the Association, to be responsible for the carrying out of said Part A of the Project. RS shall also establish and maintain a credit committee of the credit line section which shall be responsible for approval of Subsidiary Loans applied for by PFIs.

2. RS shall, through the PCU:

(a) relend to the PFIs the equivalent of the proceeds of the Credit allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement under Subsidiary Loan Agreements to be entered into between RS and each such PFI, under terms and conditions which shall have been approved by the Association, and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of Part A of the Project and the carrying out by the PFIs of their obligations under their respective Subsidiary Loan Agreements in accordance with policies and procedures satisfactory to the Association;

(c) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Subsidiary Loan Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(d) exercise its rights under the Subsidiary Loan Agreements in such manner as to protect the interests of the Association and the Borrower and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof.

ANNEX TO SCHEDULE 1

Principal Terms and Conditions of the Subsidiary Loan Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 2 (a) of Section B of Schedule 1 to this Agreement.

A. Terms

1. The principal amount to be relend out of the proceeds of the Credit to a PFI under its respective Subsidiary Loan Agreement shall be denominated in DEM and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The Subsidiary Loan shall: (a) be charged monthly, on the principal amount thereof withdrawn and outstanding from time to time, interest at a rate of two percent (2%) below the DEM LIBOR rate for the same term as the Subsidiary Loan, in effect the first day of each calendar quarter, but such interest rate to be not less than two percent (2%) per annum; and (b) have a maturity of not more than three (3) years.

3. The right of a PFI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations

under its respective Subsidiary Loan Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty (60) days.

B. Conditions

1. A Subsidiary Loan Agreement may be entered into with a PFI, which the PCU shall have determined, and the Association shall have agreed, that such PFI:

- (a) is duly established and licensed to operate in RS;
- (b) except as otherwise agreed with the Association, has been in existence for at least two years;
- (c) is operating pursuant to investment and lending policies and procedures acceptable to the Association, and has undertaken to maintain said policies and procedures;
- (d) is in compliance with applicable prudential regulations of RS; or has entered into an agreement with the banking supervision authorities on a time-based program to achieve compliance with applicable prudential regulations of RS if it is not in compliance with such regulations; and
- (e) is expected to have positive net capital after financial restructuring and debt relief, based on data provided by the banking supervision authorities.

2. Each respective Subsidiary Loan Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

- (a) carry out activities under Part A of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in paragraph 1 (c) hereof, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;
- (b)
  - (i) make Sub-loans to Beneficiaries on the terms and conditions set forth in the Operational Guidelines including, without limitation, the terms and conditions set forth in the Attachment to this Annex;
  - (ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower, RS and the Association, comply with its obligations under its respective Subsidiary Loan Agreement and achieve the purposes of Part A of the Project;
  - (iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without prior approval of RS; and
  - (iv) appraise Sub-projects and supervise, monitor and report on the carrying out by Beneficiaries of Sub-projects, in accordance with the Operational Guidelines;
- (c) maintain, with staff and other resources and terms of reference, satisfactory to the Association and RS:
  - (i) a credit committee to be responsible for the evaluation and approval of Sub-loan applications; and
  - (ii) a technical unit to be responsible for the appraisal and supervision of the carrying out of Sub-projects;
- (d)
  - (i) exchange views with, and furnish all such information to the Association or the PCU, as may be reasonably requested by the Association, RS or the PCU, with regard to the progress of its activities under Part A of the Project, the performance of its obligations under its respective Subsidiary Loan Agreement, and other matters relating to the purposes of Part A of the Project;

- (ii) prepare and submit to the PCU quarterly reports on Sub-loan disbursements and repayments, and on the progress made in achieving the objectives outlined in the business plans submitted with the Sub-loan applications; and
- (iii) promptly inform the Association and the PCU of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Loan Agreement;
- (e) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition; and
- (ii) furnish to the Association such information concerning said records and accounts as the Association shall from time to time reasonably request; and
- (f) assume the credit risk of each Sub-loan.

ATTACHMENT TO THE ANNEX TO SCHEDULE 1

Terms and Conditions of the Sub-loans

The provisions of this Attachment shall be for the purposes of paragraph 2 (b) (i) of Part B of the Annex to this Schedule 1.

1. The principal amount of each Sub-loan made out of the proceeds of the Credit allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement shall:

(a) be denominated in DEM, and be the equivalent in DEM (determined as of the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of goods and works financed out of such proceeds for Sub-loans under Part A of the Project; and

(b) not exceed the equivalent of DEM 250,000.

2. Each Sub-loan shall be:

(a) charged monthly, on the principal amount thereof withdrawn and outstanding from time to time, an interest rate of not more than seven percent (7%) above the interest rate set forth in paragraph A.2 of the Annex to Schedule 1 to this Agreement;

(b) repaid, in respect of interest on the outstanding principal balance of the Sub-loan, monthly, as determined by the PFI in accordance with its investment and lending policies; and

(c) repaid, in respect of the principal balance of the Sub-loan disbursed and outstanding, within a period of three (3) years or less.

3. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of a Sub-loan unless:

(a) the Sub-loan for such Sub-project shall have been approved by the Association and such expenditures shall have been made not earlier than 180 days prior to the date on which the Association shall have received the application and information required under paragraph (4) of this Attachment in respect of such Sub-loan; or

(b) the Sub-loan for such Sub-project shall have been a free-limit Sub-loan (as hereinafter defined) for which the Association shall have authorized withdrawals from the Credit Account and such expenditures shall have been made not earlier than 180 days prior to the date on which the Association shall have received the request and information required under paragraph 4 (b) of this Attachment in respect of such free-limit Sub-loan. For the purposes hereof, a free-limit Sub-loan shall be a Sub-loan for a Sub-project to be made by each respective PFI in an amount to be financed out of the proceeds of the Credit which shall not exceed the sum determined from time to time by the Association and notified to RS and each such respective PFI.

4. (a) When presenting a Sub-loan, other than a free-limit Sub-loan, to the

Association for approval, the PFI shall furnish to the Association, through the PCU, an application, in a form satisfactory to the Association, together with:

- (i) a description of the Beneficiary, including balance sheet and income statement information;
- (ii) the appraisal of the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit;
- (iii) a business plan, including recent and projected financial statements of the Beneficiary;
- (iv) the proposed terms and conditions of the Sub-loan, including the schedule of amortization therefor; and
- (v) any such other information as the Association shall reasonably request.

(b) Each request for authorization to make withdrawals from the Credit Account in respect of a free-limit Sub-loan shall contain:

- (i) a summary description of the Beneficiary and the Sub-project, including a description of the expenditures proposed to be financed out of the proceeds of the Credit; and
- (ii) the terms and conditions of the Sub-loan, including the schedule of amortization therefor.

(c) Applications and requests made pursuant to the provisions of subparagraphs (a) and (b) of this paragraph shall be presented to the Association not later than December 31, 1999.

5. Sub-loans shall be made to Beneficiaries who each shall have established to the satisfaction of the PFI making the Sub-loan, on the basis of Operational Guidelines that:

- (a) it has been in existence preferably for at least two years;
- (b) it operates in RS and is registered with RS tax authorities and the local chamber of commerce;
- (c) it is engaged in agro-processing, manufacturing or other economic activity that supports the restoration of food production or industrial production;
- (d) it has no outstanding Sub-loan to any PFI;
- (e) it is a private enterprise; and
- (f) it is creditworthy, and has a satisfactory financial structure and the organization, management, staff and financial and other sources required for the efficient carrying out of this operations, including the carrying out of the Sub-project.

6. Sub-loans shall be made for Sub-projects which are each determined, on the basis of an appraisal carried out in accordance with the Operational Guidelines, to be:

- (a) technically feasible and economically, financially and commercially viable, with an expected financial rate of return of not less than fifteen percent (15%);
- (b) capable of being implemented and made operational within a period of not more than six (6) months; and
- (c) in compliance with environmental standards satisfactory to the Association and in compliance with all applicable laws and regulations of RS relating to health, safety and environmental protection.

7. Sub-loans shall be made on terms whereby the PFI making the Sub-loan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of RS and the Association, including the right to:



(a) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate technical, economic, financial and commercial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;

(b) require that: (i) the goods and consultants' services to be financed out of the proceeds of the Credit shall be procured on the basis of competitive price quotations obtained locally and internationally, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, and, in the case of consultants' services, of their quality and the competence of the parties rendering them; and (ii) such goods and services be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Association or the PCU on behalf of RS if the Association, RS or the PCU shall so request, the goods and the sites, works, plans and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound business practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Credit to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to replace or repair such goods;

(e) carry out and operate the Sub-project in accordance with appropriate health, safety and environmental standards, satisfactory to the Association;

(f) obtain all such information as the Association, RS or the PCU shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and

(g) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with the PFI.

## SCHEDULE 2

### Procurement under Part E of the Project

#### 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 and September 1997 (the Guidelines) and the following provisions of this Section.

##### Part B: Procurement Procedure

###### National Shopping

Goods estimated to cost less than \$50,000 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.

##### Part C: Review by the Association of Procurement Decisions

###### Post Review

The procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply to Part B of this Section.

#### Section II. Employment of Consultants

##### Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction 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 (the Consultant Guidelines) 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, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions 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 for technical assistance for Project implementation support under Part E of the Project, estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for external project audits under Part E of the Project 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.

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

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under 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 Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, 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 said approval shall have been given.

3. Post Review

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

