

CONFORMED COPY

CREDIT NUMBER 3028 BOS

Project Agreement

(Reconstruction Assistance Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated January 26, 1998

CREDIT NUMBER 3028 BOS

PROJECT AGREEMENT

AGREEMENT, dated January 26, 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 twelve million three hundred thousand Special Drawing Rights (SDR 12,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that RS agree 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 RS 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 RS Subsidiary Credit Agreement; and

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

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 Parts A, B, C and E of the Project and shall cause EPRS to carry out Part D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, 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) For purposes of carrying out Part D of the Project, RS shall relend the proceeds of the Subsidiary Credit allocated to Part D of the Project to EPRS under a subsidiary credit agreement (the EPRS Subsidiary Credit Agreement) to be entered into between RS and EPRS under terms and conditions which shall have been approved by the Association, which shall include those described in the Implementation Program set forth in Schedule 2 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of RS and the Association.

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

(d) 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 Parts A, B, C and E of the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (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) Without limitation upon the provisions of paragraph (a) of this Section, 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; (ii) afford the Association a reasonable opportunity to exchange views with RS on said plan; and (iii) thereafter, carry out said plan with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Section 2.04. RS shall duly perform all its obligations under the RS Subsidiary Credit 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 RS Subsidiary Credit 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 RS Subsidiary Credit 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 RS Subsidiary Credit Agreement.

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, resources and expenditures in respect of 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 March 31, 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, 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 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:

Telex:

INTBAFRAD
Washington, D.C.

248423 (MCI) or
64145 (MCI)

For Republika Srpska:

Ministry of Finance of Republika Srpska
Trg Srpskih Junaka 4
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 the city of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ R. O'Sullivan

Acting Regional Vice President
Europe and Central Asia

REPUBLIKA SRPSKA

By /s/ Plavsic

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: Other Procurement Procedures

1. Limited International Bidding

Except as otherwise provided in this Section, goods procured under Parts A and D of the Project estimated to cost more than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 equivalent, and goods which are agreed with the Association, and goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. International Shopping

Goods procured under Parts B, C, D and E of the Project estimated to cost less than \$1,000,000 equivalent per contract, up to an aggregate amount not to exceed \$2,000,000 equivalent, 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.

3. National Shopping

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, 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.

4. Direct Contracting

Items for electricity distribution and testing and maintenance of equipment under Part D of the Project costing \$400,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Works under Part C of the Project which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$190,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

6. Procurement of Small Works

Works estimated to cost less than \$1,000,000 equivalent per contract, up to an amount not to exceed \$8,500,000 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from at least three (3) prequalified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 and works 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

(a) With respect to each contract procured under Part B.1 of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) each contract for Part A.2 of the Project procured under Part B.1 of this Schedule; (ii) each contract procured under Part B.4 of this Schedule; (iii) first ten (10) contracts for Part B of the Project procured under Part B.6 of this Schedule; (iv) first five (5) contracts for Part C of the Project procured under Part B.6 of this Schedule; and (v) each contract estimated to cost more than \$400,000 equivalent and procured under Part B.6 of this Schedule, the following procedures shall apply:

- (i) prior to the selection of any supplier or contractor, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Association a copy

of the specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2 (f) and 2 (g) 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications thereto as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each; or (b) contracts for the employment of individual consultants estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000.

SCHEDULE 2

Implementation Program

A. Project Management:

1. PCU shall be responsible for the overall implementation and coordination of the Project. RS shall establish and thereafter 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.

2. Not later than March 31, 1998, RS shall establish the RS PMAU with adequate staff, funds, facilities and other resources satisfactory to the Association and shall establish procedures necessary to ensure that the RS PMAU shall coordinate with PMAU for purposes of procurement monitoring and audit of the Project.

B. Part A of the Project:

1. For the purposes of carrying out Part A of the Project, RS shall through the PCU:

- (a) enter into a Subsidiary Agreement for Agriculture with each Eligible Farmer, under terms and conditions which shall include, inter alia, those set forth in paragraph B.2 of this Schedule;

- (b) exercise its rights under the Subsidiary Agreements for Agriculture in such manner as to protect the interests of the Association and RS and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Subsidiary Agreement for Agriculture or provision thereof; and

- (c) select farmers in accordance with the following eligibility criteria indicated below:

- (i) Farmers must be experienced livestock producers and/or crop farmers and must have suffered the loss of livestock and/or a tractor due to the war.

- (ii) Farmers must have title or user rights to the land and farm buildings within one of the municipalities, other than Brcko, as agreed between RS and the Association.
- (iii) For Part A.1 of the Project, farmers must have adequate shelter and access to a land area that allows the animals to be supported.
- (iv) For Part A.2 of the Project, farmers must have adequate servicing/storage conditions for the equipment and to be eligible for the supply of two-axle tractors, farmers must have a minimum 10 hectares of land.
- (v) For Part A.2 of the Project, farmers must have not more than: (aa) DEM 10,000 equivalent of total assets other than the farm land and buildings; and (bb) DEM 500 equivalent of household cash income per month.

2. RS shall ensure that the following terms and conditions are incorporated in each Subsidiary Agreement for Agriculture:

- (a) The value of the livestock and/or equipment supplied, expressed in DEM, shall be based on the import value.
- (b) The maximum value of each Subsidiary Agreement for Agriculture shall not exceed the equivalent of DEM 100,000.
- (c) The subsidiary credit for Part A.2 of the Project shall bear an interest rate of not less than DEM-LIBOR plus 3% per annum.
- (d) The Eligible Farmer shall provide adequate guarantees or necessary collateral for the supply credit provided under the Subsidiary Agreement for Agriculture.
- (e) The term of the subsidiary credit shall be up to five (5) years with a grace period of one (1) year for subsidiary credits made under Part A.1 of the Project and up to eight (8) years with a grace period of two (2) years for subsidiary credits made under Part A.2 of the Project.
- (f) The subsidiary credit repayments shall be in cash and shall be channeled through selected local credit institutions.

C. Part B of the Project:

1. For the purposes of carrying out Part B of the Project, RS shall, through the PCU:

- (a) enter into a Subsidiary Agreement for Housing with each Eligible Municipality, under terms and conditions which shall include, inter alia, those set forth in paragraph C.2 of this Schedule;
- (b) exercise its rights under the Subsidiary Agreements for Housing in such manner as to protect the interests of the Association and RS and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Subsidiary Agreement for Housing or provision thereof; and
- (c) select the Eligible Municipalities in accordance with the following criteria:
 - (i) the residents of each Eligible Municipality must be more than 10,000 according to the latest available census;
 - (ii) more than 20% of total municipal housing stock must be publicly owned;
 - (iii) a significant proportion (more than 30%) of such housing stock must have been damaged, without suffering, however, from any major structural damage (less than 40% of the external envelope); and
 - (iv) Eligible Municipalities must agree to apply cost recovery for repair costs and agree to present a plan for full recovery of

repair costs and operation and maintenance costs to be achieved within five (5) years and thereafter.

2. RS shall incorporate the following terms and conditions into each Subsidiary Agreement for Housing:

(a) Except as RS and the Association shall otherwise agree, the apartment buildings eligible for repair works under the Project shall be selected in accordance with the following criteria:

- (i) the owners of the apartment buildings must be civilian enterprises or the Eligible Municipality and the ownership of the apartment building should be without any dispute;
- (ii) in case the apartment buildings are owned by enterprises, such enterprises must have given appropriate authority to the Eligible Municipality to undertake repairs;
- (iii) the apartment buildings must have been constructed with built masonry, concrete frame, and non-modular construction systems;
- (iv) the apartment buildings must have suffered limited damage to their external envelopes (less than 40%), without suffering any major structural damage;
- (v) the apartment buildings must be located in areas that have been cleared, or have been declared free, of mines;
- (vi) the apartment buildings must be located in populated areas, and must either benefit from operating infrastructure services or be located in areas where, at the time of the selection, infrastructure services are planned to be restored; and
- (vii) the apartment buildings must provide, once repaired, the highest possible number of useable units.

(b) The term of the subsidiary credit shall be not more than thirty (30) years with a grace period of not more than five (5) years.

(c) The subsidiary credit shall bear interest at a rate of not less than 1.75% per annum.

(d) Repayment shall be in DEM.

(e) The rents charged to the tenants of the selected buildings shall at a minimum recover the costs of the repair works under the Project.

D. Part C of the Project:

1. For the purpose of carrying out Part C of the Project RS shall, through the ZVRS:

(a) enter into a Subsidiary Agreement for Water and Sanitation with each Benefiting Municipality, under terms and conditions which shall include, inter alia, those set forth in paragraph D.2 of this Schedule; and

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

2. RS shall cause ZVRS to incorporate the following terms and conditions into each Subsidiary Agreement for Water and Sanitation:

(a) the amount of the subsidiary credit shall be denominated in local currency and equivalent to the cost of the goods and/or works to be supplied at the exchange rate in effect on the date of disbursement;

(b) the subsidiary credit shall not bear any interest or other charges;

(c) the terms of the subsidiary credit shall be not more than thirty (30)

years with a grace period of not more than seven (7) years; and

(d) the Subsidiary Agreement for Water and Sanitation shall not become effective unless an action plan, for recovery of operating costs within three (3) years following the date of the Subsidiary Agreement for Water and Sanitation and full cost recovery (including recovery of capital investments) not later than seven (7) years following the date of the Subsidiary Agreement for Water and Sanitation, has been submitted to MOF by the Benefiting Municipality.

E. Part D of the Project:

1. RS shall cause EPRS, through Elektropronos Banja Luka and Elektrokrajina Banja Luka, to carry out Part D of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, power utility and environmental practices and to this end shall relend part of the proceeds of the Subsidiary Credit allocated to Categories (3) (c) and (6) (b) specified in the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement to EPRS, under a subsidiary credit agreement (the EPRS Subsidiary Credit Agreement) to be entered into between RS and EPRS under terms and conditions which shall have been approved by the Association and which shall include the following:

(a) RS shall onlend to EPRS an amount in Dollars or any other convertible currency equivalent to the amount of the Subsidiary Credit allocated to Categories (3) (c) and (6) (b) specified in the table set forth in paragraph 1 of Schedule 1 to the Development Credit Agreement;

(b) the term of the EPRS Subsidiary Credit shall be not more than twenty (20) years, including a grace period of not more than five (5) years;

(c) RS shall charge a commitment fee at a rate equal to the rate of commitment charge payable under Section 2.04 of the Development Credit Agreement;

(d) RS shall charge interest on the principal amount of the EPRS Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate of the service charge payable by RS under Section 2.05 of the Development Credit Agreement;

(e) the principal amount of the EPRS Subsidiary Credit repaid shall be the equivalent in Dollars or any other convertible currency (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Credit Account on account of expenditures for Part D of the Project;

(f) RS shall have the right to require modification in the repayment terms of the EPRS Subsidiary Credit in conformity with the provisions of Section 2.07 (b) of the Development Credit Agreement; and

(g) except as the Association shall otherwise agree, procurement of goods, works and consultants' services required for Part D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

2. RS shall exercise its rights under the EPRS Subsidiary Credit Agreement in such a manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, RS shall not assign, amend, abrogate or waive the EPRS Subsidiary Credit Agreement or any provision of such agreement.

3. (a) RS shall cause EPRS to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Part D of the Project.

(b) RS shall cause EPRS to:

(i) have the records and accounts referred to in sub-paragraph (a) of this paragraph for each fiscal year, audited in accordance with appropriate auditing principles consistently applied, 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, a certified copy of 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 accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, RS shall cause EPRS to:

- (i) maintain or cause to be maintained, in accordance with sub-paragraph (a) of this paragraph, records and accounts reflecting such expenditures;
 - (ii) retain, until at least one year after the Association has received the audit for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
 - (iii) enable the Association's representatives, based on an appropriate notice, to examine such records; and
 - (iv) ensure that such records and accounts are included in the annual audit referred to in sub-paragraph (b) of this paragraph and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.
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