

CONFORMED COPY

LOAN NUMBER 7842-BA

Federation Project Agreement

(Sarajevo Waste Water Project)

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated June 25, 2010

LOAN NUMBER 7842-BA

PROJECT AGREEMENT

Agreement dated June 25, 2010, entered into between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) and FEDERATION OF BOSNIA AND HERZEGOVINA (“Project Implementing Entity”) (“Project Agreement”) in connection with the Loan Agreement (“Loan Agreement”) dated March 17, 2010 between Bosnia and Herzegovina (“Borrower”) and the Bank. The Bank 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 the Loan 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 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 the Project in accordance with the provisions of Article V of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for 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 the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

- 3.01. The Project Implementing Entity’s Representative is the Minister of Finance of the Federation of Bosnia and Herzegovina.
- 3.02. 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

3.03. 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/ Marco Mantovanelli
Authorized Representative

**FEDERATION OF BOSNIA AND
HERZEGOVINA**

By /s/ Borjana Kristo
Authorized Representative

SCHEDULE

Execution of the Project

Section I. Implementation Arrangements

A. Institutional Arrangements

The Project Implementing Entity shall carry out the Project in accordance with the following institutional and other arrangements:

1. The Project shall be implemented by the PMT which shall comprise a PMT manager, a procurement manager and a procurement officer, a financial manager and other experts as needed for the implementation of the Project. The PMT shall be responsible for Project management, including procurement, financial management, disbursements, monitoring and evaluation and reporting arrangements. The PMT shall also ensure compliance of all Project activities with the Bank's social and environmental safeguards.
2. The PIT, established within ViK and which shall comprise an engineer assisting the PMT procurement officer in reviewing technical specifications and certifying completion of works and a financial officer reporting to the Sarajevo Canton and the PMT on ViK's financial performance, shall be responsible for day-to-day management and technical supervision of the Project in coordination with the PMT. The PIT shall handle procurement, financial and social and environmental aspects of the Project, which shall subsequently be reviewed and cleared by the PMT to ensure compliance with Bank guidelines and procedures.

B. Implementation Covenants and Safeguards

1. The Project Implementing Entity shall maintain the PIT 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, and shall cause the PMT and the PIT to:
 - (a) duly perform all obligations under the Operational Manual, the Environmental Impact Assessment and the Environmental Management Plan 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, the Environmental Impact Assessment or the Environmental

Management Plan or any provisions of any one thereof, except with the prior written approval of the Bank.

3. The Project Implementing Entity shall, and shall cause the PMT and the PIT to ensure that no land acquisition, relocation of population or temporary and/or permanent restrictions on access to economic resources shall be required under the Project.

C. Subsidiary Loan

1. To facilitate the carrying out and financing of the Project, the Borrower shall make the proceeds of the Loan available to the Project Implementing Entity under a subsidiary loan agreement between the Borrower and the Project Implementing Entity, under the same terms and conditions as the Loan, approved by the Bank and including the Anti-Corruption Guidelines (“Subsidiary Loan Agreement”), for on-lending by the Project Implementing Entity to the Sarajevo Canton, for the benefit of VIK, on terms and conditions set forth in Part D of this Section I.
2. The Project Implementing Entity shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Project Implementing Entity, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any of its provisions.

D. Subsidiary Financing

1. The Project Implementing Entity shall make the proceeds of the Subsidiary Loan available to the Sarajevo Canton, for the benefit of VIK, for purposes of carrying out the Project, under a subsidiary financing agreement between the Project Implementing Entity and the Sarajevo Canton, under the same terms and conditions as the Subsidiary Loan, approved by the Bank and including the Anti-Corruption Guidelines (“Subsidiary Financing Agreement”).
2. The Project Implementing Entity shall exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Project Implementing Entity, the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Project Implementing Entity shall not assign, amend, abrogate or waive the Subsidiary Financing Agreement or any of its provisions.

E. Anti-Corruption

The Project Implementing Entity shall, and shall cause the PMT and the PIT to ensure that 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 PMT and PIT, shall monitor and evaluate the progress of the Project and prepare Project Reports for the Project in accordance with the provisions of Section 5.08 (b) of the General Conditions and on the basis of indicators agreed with the Bank. Each such Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.
2. The Project Implementing Entity, through the PMT and PIT, shall provide to the Bank not later than three (3) months after the Closing Date, for incorporation in the report referred to in Section 5.08 (c) of the General Conditions 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 PIT, 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 the Project.
2. The Project Implementing Entity 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. In addition, the Project Implementing Entity shall cause VIK to have its financial statements referred to above audited in accordance with local laws and regulations acceptable to the Bank. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Borrower. 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 and to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to the Loan Agreement.