

CONFORMED COPY

CREDIT NUMBER 3538 BOS

Project Agreement

(Community Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated October 19, 2001

CREDIT NUMBER 3538 BOS

PROJECT AGREEMENT

AGREEMENT, dated as of October 19, 2001, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the Federation of Bosnia and Herzegovina (the Federation).

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 make available to the Borrower an amount in various currencies equivalent to eleven million, eight hundred thousand Special Drawing Rights (SDR 11,800,000) (the Credit), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that the Federation agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary credit agreement to be entered into between the Borrower and the Federation (the Federation Subsidiary Credit Agreement), the Borrower will make available to the Federation a portion of the proceeds of the Credit provided for under the Development Credit Agreement; and

WHEREAS the Federation, 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 A of the Project

Section 2.01. (a) The Federation 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 A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and environmental practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for said Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and the Federation shall otherwise agree, the Federation shall carry out Part A 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, works and consultants' services required for Part A 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. (a) The Federation 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 A 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 the Federation, a plan for the future operation of Part A of the Project;

(ii) afford the Association a reasonable opportunity to exchange views with the Federation 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 comment thereon.

Section 2.04. The Federation shall exercise its rights under the Federation Subsidiary Credit Agreement in such manner as to protect the interests of the Federation 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 Federation Subsidiary Credit Agreement or any provision thereof.

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

(b) The Federation 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 the Federation of its obligations under this Agreement and under the Federation Subsidiary Credit Agreement.

## ARTICLE III

### Financial Covenants

Section 3.01. (a) The Federation shall maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Association adequate to reflect the operations, resources and expenditures in connection with the carrying out of Part A of the Project.

(b) The Federation shall:

(i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) and the records and accounts for the Special Account 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 copies of the financial statements referred to in paragraph (a) of this Section 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, accounts and financial statements, and the audit thereof, as the Association may from time to time reasonably request.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01 of this Agreement, the Federation shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system referred to in paragraph (a) of said Section 3.01 in order to enable the Federation, not later than February 15, 2002, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for Part A of the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under Part A of the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Federation shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter a Project Management Report for such period.

#### 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 the Federation thereunder shall terminate on the earlier of the following two 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 the Federation 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 address 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:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For the Federation:

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

Facsimile:  
387 71 203 152

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of the Federation, or by the Federation on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Minister of Finance or such other person or persons as the Federation shall designate in writing, and the Federation 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/ Joseph Ingram

Authorized Representative

FEDERATION OF BOSNIA AND HERZEGOVINA

By /s/ Karlo Filipovic

Authorized Representative

SCHEDULE 1

Implementation Program

1. The Federation shall during the execution of Part A of the Project, ensure the maintenance of the Federation PIU with such staff and resources as shall be required for the Federation PIU to perform its duties in respect of the overall management and implementation of Part A of the Project in accordance with the Operational Manual and satisfactory to the Association.

2. The Federation shall carry out the Project in accordance the Operational Manual, including the Guidelines, and maintain the Operational Manual until the completion of the Project and unless the Association may otherwise agree, not amend, repeal or waive the Operational Manual or any provision thereof.

3. The Federation shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators agreed upon between the Borrower and the Association, the carrying out of Part A 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 March 31, 2003, a report 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 A 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 A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 30, 2003, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Part A 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.

4. In carrying out Part A.1.(c) of the Project, the Federation shall follow the Guidelines, which form an integral part of the Operational Manual and give details of all procedural arrangements for the review, appraisal, supervision, and monitoring and evaluation, of Sub-projects, including procedures for submission and review of requests for financing, criteria for the review and approval of Sub-projects, and approval of Performance Grants, applicable procurement, disbursement and other implementation guidelines, and model forms of Performance Grant Agreements and works contracts with local contractors.

5. In carrying out Part A.1.(c) of the Project the following terms and conditions shall apply:

(a) Performance Grants shall be provided for the benefit of Beneficiaries and shall be acceptable to the Association and specified in the Guidelines; provided however that:

(i) no Performance Grant shall be granted except to finance a Sub-project which (i) is technically sound and feasible, and (ii) contributes to improvement of the governance of Beneficiaries;

(ii) the proceeds of a Performance Grant shall not be used to finance taxes or duties levied on or in respect of eligible expenditures relating to a Sub-project, or any part thereof; and

(iii) except as the Association shall otherwise agree, the amount of each Performance Grant shall not exceed \$50,000 equivalent, or ninety (90) percent of the total cost of the Sub-project, whichever is less.

(b) For the purposes of each Performance Grant, the Federation PIU shall conclude a Performance Grant Agreement with the Beneficiary in the form of the model provided in the Guidelines, setting forth the respective obligations of the parties thereunder, including details of disbursement schedules and procurement procedures, as they may apply, the amount of the Beneficiary's contribution to the cost of the Sub-project, and the right of the Federation to:

- (i) require the Beneficiary (A) to carry out the Sub-project with due diligence and efficiency, in conformity with appropriate administrative, financial, engineering and technical practices, and to maintain adequate records, and (B) upon completion of the Sub-project, to make provision for the maintenance of any productive assets resulting therefrom, and for the payment of recurrent expenditures generated thereunder;
- (ii) obtain all such information as the Association or the Federation shall reasonably request relating to the implementation of the Sub-project and the performance of the Beneficiary thereunder; and
- (iii) suspend or terminate the right of the Beneficiary to the use of the proceeds of a Performance Grant upon failure by such Beneficiary to perform its obligations under such agreement.

## SCHEDULE 2

### Procurement and Consultants' Services

#### Section I. Procurement of Goods and Works

##### Part A: General

1. Goods and works shall be procured in accordance with: (a) 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 (b) the following provisions of the following Parts of Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country."

##### Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works 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. National Competitive Bidding

Works estimated to cost more than \$50,000 and less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,333,333 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

###### 2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$65,000 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.

###### 3. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$2,533,333 equivalent, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified 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 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 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 for goods procured in accordance with provision of Part B of this Section and works procured in accordance with the provisions of Part B and C.1. of this Section, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for goods procured in accordance with the provisions of Part C.2. of this Section and works procured in accordance with the provisions of Part C.3. of this Section, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, 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 shopping procedures, 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), 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

### Part A: General

1. Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

### Part B: Quality- and Cost-based Selection

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.

### Part C: Other Procedures for the Selection of Consultants

#### 1. Least-cost Selection

Services for financial audits 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 for social and institutional assessment 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. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants 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

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, 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.

(b) With respect to each contract for the employment of individual consultants, 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.

##### 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.

