

CONFORMED COPY

CREDIT NUMBER 3626 BOS

Project Agreement

(Road Management and Safety Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated June 18, 2002

CREDIT NUMBER 3626 BOS

PROJECT AGREEMENT

AGREEMENT, dated as of June 18, 2002, between INTERNATIONAL DEVELOPMENT

ASSOCIATION (the Association) and Republika Srpska.

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 twenty four million two hundred thousand Special Drawing Rights (SDR 24,200,000) (the Credit), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Republika Srpska agrees to undertake such obligations toward the Association as are set forth in this Agreement;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

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

ARTICLE II

Execution of Parts B and C of the Project

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

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and Republika Srpska shall otherwise agree, Republika Srpska shall carry out Parts B and C 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 services required for Parts B and C 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) Republika Srpska shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods, works and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Parts

B and C of the Project.

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

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and Republika Srpska, a plan for the future operation of Parts B and C of the Project;
- (ii) afford the Association a reasonable opportunity to exchange views with Republika Srpska 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. Republika Srpska shall exercise its rights under Republika Srpska Subsidiary Credit Agreement in such manner as to protect the interests of Republika Srpska 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 Republika Srpska Subsidiary Credit Agreement or any provision thereof.

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

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

ARTICLE III

Financial Covenants

Section 3.01. (a) Republika Srpska shall maintain a financial management system, including records and accounts, and prepare financial statements, in a format acceptable to the Association adequate to reflect the operations, resources and expenditures in connection with the carrying out of Parts B and C of the Project.

(b) Republika Srpska 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 reporting obligations set forth in Sections 2.03 and 2.05 of this Agreement, the Republika Srpska shall furnish to the Association a financial monitoring report, in form and substance satisfactory to the Bank, which:

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

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

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the later date of: the date upon which the Development Credit Agreement becomes effective, or the date when this Agreement has been executed by the parties hereto.

Section 4.02. (a) This Agreement and all obligations of the Association and of Republika Srpska thereunder shall terminate on the earlier of the 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 Republika Srpska of this event.

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

ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or facsimile 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 Republika Srpska:

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

Facsimile
387-51-331351

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

Republika Srpska shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

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

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Joseph Ingram

Authorized Representative

REPUBLIKA SRPSKA

By /s/ Mirko Sarovic

Authorized Representative

SCHEDULE 1

Implementation Program

1. Republika Srpska shall carry out Part B of the Project through the RSDRRSRD, in accordance with the PIP.
2. Republika Srpska and the Federation shall jointly carry out Part C of the Project, through RSDRRSRD and FDRFRD, respectively, in accordance with the PIP.
3. Republika Srpska shall maintain the PIP until the completion of the Project and, unless the Association may otherwise agree, not amend, repeal or waive the PIP or any provision thereof.
4. Republika Srpska shall:
 - (a) ensure that all measures necessary for the carrying out of the Environmental Management Plan are taken in a timely manner; and
 - (b) include adequate information on the carrying out of measures described in the Environmental Management Plan in the progress reports referred to in paragraph 9 of this Schedule.
5. Republika Srpska shall open an account, on terms and conditions satisfactory to the Association, where it will deposit its share of Project costs, for the implementation of Parts B and C of the Project, starting with an initial amount of Euro 6200,000 equivalent, and thereafter, on a quarterly basis, as needed.

6. Republika Srpska shall increase the annual budgets for the RSRD by five percent (5%) for each year during the implementation of the Project, starting January 1, 2003.

7. Republika Srpska shall ensure that no private land be affected by the Project unless procedures for compensation and replacement have been reviewed and found satisfactory to the Association.

8. Republika Srpska shall, by August 31 of each year during the implementation of the Project, furnish to the Association the annual project implementation work programs for the RSDRRSRD for the next calendar year, including procurement and financing plans, and by October 31 each year _____ review these plans with the Association before implementing them.

9. Republika Srpska 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 Parts B and C 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 August 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 Parts B and C 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 Parts B and C of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by September 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 Parts B and C 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.

SCHEDULE 2

Procurement and Consultants' Services

Section I. Procurement of Goods, Works and Technical Services

Part A: General

1. 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, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this 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

1. 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.

2. The provisions of paragraph 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International Shopping

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$210,000 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.

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 procured under Part B of this Section I and the first two contracts procured under Part C.1., the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to contracts procured under Part C.2 of this Section I, 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 auditing services and services under Part B.2(a) 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.

2. Selection Based on Consultants' Qualifications

Services for small contracts for the preparation of public information campaign and training design and related services, estimated to cost less than \$50,000 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 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 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 in accordance with paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines. 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.

