

CONFORMED COPY

CREDIT NUMBER 3466 BOS

Project Agreement

(Trade and Transport Facilitation in Southeast Europe Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated August 1, 2001

CREDIT NUMBER 3466 BOS

PROJECT AGREEMENT

AGREEMENT, dated August 1, 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 eight million seven hundred thousand Special Drawing Rights (SDR 8,700,000), 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 (Federation Subsidiary Credit Agreement), a part of the proceeds of the Credit provided for under the Development Credit Agreement will be made available to the Federation on the terms and conditions set forth in said Federation Subsidiary 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 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, engineering 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, Federation shall carry out Part A 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 works, goods 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 1 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, respectively) in respect of the 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; and

(ii) afford the Association a reasonable opportunity to exchange views with the Federation on said plan.

Section 2.04. The Federation shall duly perform all its obligations under the Federation Subsidiary Credit Agreement. Except as the Association shall otherwise agree, the Federation shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving 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 Part A 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 establish and 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 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) for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 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) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, and concerning said auditors, 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 May 15, 2001, 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 Borrower 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 thirty (30) 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 of Bosnia and Herzegovina:

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

Facsimile:  
387 33 203 152

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 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 the city of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Siew Chai Ting

Authorized Representative

FEDERATION OF BOSNIA AND HERZEGOVINA

By /s/ Nikola Grabovac

SCHEDULE 1

Procurement and Consultants' Services

Section I. Procurement of Works

Part A: General

1. 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

1. 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 following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part A:

Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$200,000 equivalent or more for works shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Prior Review

With respect to each contract for works, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. 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 carrying out of audits under the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Individual Consultants

Services for tasks that meet the requirement 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 estimated to cost the equivalent of \$100,000 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 individual consultants estimated to cost the equivalent of \$25,000 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 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.

SCHEDULE 2

Implementation Program

A. Implementation Responsibilities

(1) The PIT, acting under the direction of the Project Manager, shall bear all technical responsibilities to implement the Project as described in the PIP, including: (a) preparation of an annual plan for Project implementation; (b) preparation, with the assistance of consultants, the Federation and Republika Srpska of bidding and contract documents under the Project; (c) the maintenance of the Project financial records and accounts and arranging for the audit thereof; (d) preparation of the quarterly reports on Project progress, referred to in Part B of this Schedule; and (e) supervision of progress of Project implementation.

(2) The Federation, acting through the FCA, shall ensure that the PIT shall be maintained until the completion of the Project under terms of reference and with staff and other measures satisfactory to the Association.

(3) The Federation shall ensure: (a) that each annual plan for Project implementation referred to paragraph (1) above shall be prepared after a review between the Federation and the Association of progress in meeting the targets indicated in the PIP, including the targets set forth in the Annex to this Schedule; and (b) that the inclusion of investments and other Project activities in said plan, as well as the procurement arrangements thereof, shall be made in agreement between the Federation and the Association, taking into account the requirements set forth in the Environmental Management Plan.

(4) The Federation shall: (a) maintain its participation in the RSC; and (b) inform

the Association of actions taken at the RSC level which may affect the implementation of the Regional Program or of measures included in the PIP.

(5) The Federation shall ensure the establishment and functioning, by March 31, 2001, of mechanisms at all border agencies to provide the Facilitation Coordinator with current information to be made available to customs users, on waiting times and opening hours at border crossing and customs regulations and procedures of border agencies.

(6) The Federation shall ensure, in coordination with the PIT, that the contracts under Parts A.1 and A.3 of the Project are implemented in compliance with the bidding documents.

B. Reporting

The Federation shall ensure the preparation by PIT for submission to the Association of quarterly reports on the progress of Project implementation.

C. Monitoring

The Federation shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators included in the PIP and satisfactory to the Federation and the Association, including those set forth in the Annex to this schedule;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, by October 15 of each year, 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 November 15 of each year, 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.

Annex to

SCHEDULE 2

Except as the Association may otherwise agree, the Federation shall take all necessary measures to achieve the following targets:

(a) the total number of customs declarations which result in a physical inspection by the FCA at its pilot inland terminal does not exceed, on a monthly basis: (i) 35% by September 30, 2001; and (ii) 25% by September 30, 2002;

(b) the number of trucks completing import clearance in less than 15 minutes at its pilot inland terminal exceeds, on a monthly basis: (i) 10% by September 30, 2001; and (ii) 20% by September 30, 2002; and

(c) the number of trucks opened at its pilot border-crossings does not exceed, on a monthly basis: (i) 50% by September 30, 2001; and (ii) 30% by September 30, 2002.

