

CONFORMED COPY

---

---

CREDIT NUMBER 3954-1-BOS

# **Federation Project Agreement**

**(Additional Financing for Urban Infrastructure and Service Delivery Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**FEDERATION OF BOSNIA AND HERZEGOVINA**

**Dated August 31, 2007**

---

---

**CREDIT NUMBER 3954-1 BOS**

**PROJECT AGREEMENT**

Agreement dated August 31, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and FEDERATION OF BOSNIA AND HERZEGOVINA (“Federation”) (“Federation Project Agreement”) in connection with the Financing Agreement (“Financing Agreement”) of same date between BOSNIA AND HERZEGOVINA (“Recipient) and the Association. The Association and the Federation hereby agree as follows:

**ARTICLE I - GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to the Financing 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 Financing Agreement or the General Conditions.

**ARTICLE II - PROJECT**

- 2.01. The Federation declares its commitment to the objectives of the Project. To this end, the Federation shall carry out parts of the Project in accordance with the provisions of Article IV of the General Conditions, and shall provide promptly as needed, the funds, facilities, services and other resources required for its Respective Part of the Project.
- 2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Association and the Federation shall otherwise agree, the Federation shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

**ARTICLE III - TERMINATION**

- 3.01. For purposes of Section 8.05 (c) of the General Conditions, the date on which the provisions of this Agreement shall terminate is twenty years after the date of this Agreement.

**ARTICLE IV - REPRESENTATIVE; ADDRESSES**

- 4.01. The Federation’s Representative is Minister of Finance of the Federation of Bosnia and Herzegovina.

4.02. The Association's Address is:

International Development Association  
1818 H Street, NW  
Washington, DC 20433  
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

4.03. The Federation's Address is:

Ministry of Finance of the  
Federation of Bosnia and Herzegovina  
Mehmeda Spahic 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 DEVELOPMENT ASSOCIATION**

By /s/ Marco Mantovanelli  
Authorized Representative

**FEDERATION OF BOSNIA AND HERZEGOVINA**

By /s/ Borjana Kristo  
Authorized Representative

## SCHEDULE

### Execution of the Federation's Respective Part of the Project

#### **Section I. Implementation Arrangements**

##### **A. Institutional Arrangements**

1. The Federation shall maintain the Operational Manual, and shall also maintain the Federation Subsidiary Credit Agreement, in form and content satisfactory to the Association, and duly perform all its obligations under the Operational Manual and the Federation Subsidiary Credit Agreement and shall not take or concur in any action which would have the effect of amending, assigning, abrogating or waiving the Operational Manual or the Federation Subsidiary Credit Agreement without obtaining the prior approval of the Association.

2. The Federation shall take, or cause to be taken, all measures necessary to ensure that:

(a) the PITs shall discharge their obligations and responsibilities under the Project under the overall coordination, management and supervision of the PMT established within the Ministry of Foreign Trade and Economic Relations of the Recipient, which the PMT shall be responsible for, among other matters, the clearance, management and supervision of Project procurement activities;

(b) the PITs shall follow the operational and administrative procedures for the implementation of the Project set forth in the Operational Manual;

(c) the PITs are maintained and adequately staffed, throughout the implementation of the Project, satisfactory to the Association; and

(d) the Municipal Department of the City Administration of the City of Mostar in the Federation provides its approval of or comments upon the urban management development plan no later than by thirty (30) calendar days of their respective receipt of the proposed urban management development plan.

3. (a) Except as the Association shall otherwise agree, the Federation shall cause each Participating Federation Utility not to incur any debt unless a reasonable forecast of the revenues and expenditures of the relevant Participating Federation Utility shows that the estimated net revenues of the Participating Federation Utility for each fiscal year during the term of the debt to be incurred shall be at least 1.3 times the estimated debt service requirements of the Participating Federation Utility in such year on all debt of the Participating Federation Utility, including the debt to be incurred.

- (b) For the purposes of this Section:
  - (i) the term “debt” means any indebtedness of the relevant Participating Federation Utility maturing by its terms more than one year after the date on which it is originally incurred;
  - (ii) debt shall be deemed to be incurred:
    - (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
    - (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into;
  - (iii) the term “net revenues” means the difference between:
    - (A) the sum of revenues from all sources related to operations and net non-operating income; and
    - (B) the sum of all expenses related to operations including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt;
  - (iv) the term “net non-operating income” means the difference between:
    - (A) revenues from all sources other than those related to operations; and
    - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues in (A) above;
  - (v) the term “debt service requirements” means the aggregate amount of repayments (including sinking fund payments, if any) of, and interest and other charges on, debt;
  - (vi) the term “reasonable forecast” means a forecast prepared by the relevant Participating Federation Utility not earlier than twelve (12) months prior to the incurrence of the debt in question, which both the Association and the Recipient accept as reasonable and as to which the Association has notified the Recipient of its

acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of the Participating Federation Utility; and

- (vii) whenever for the purposes of this Section it shall be necessary to value, in terms of the currency of the Recipient, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

## **B. Anti-Corruption**

The Federation shall ensure that its Respective Part of the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

## **C. Subsidiary Agreement**

1. For the purposes of carrying out the Project, the Federation shall relend the proceeds of the Credit received by it from the Recipient under the Federation Subsidiary Credit Agreement to each Participating Utility and Participating Municipality, as the case may be, in the amounts set forth under the Federation Subsidiary Credit Agreement, under a Subsidiary Financing Agreement with such Participating Utility, or Participating Municipality, as the case may be, under terms and conditions that will have been approved by the Association, including the terms and conditions set forth in Part D of Section I of Schedule 2 to the Financing Agreement.

2. The Federation shall exercise its rights under the Subsidiary Financing Agreements to which it is a party 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 take or concur in any action which would have the effect of amending, abrogating, assigning or waiving any of the Subsidiary Financing Agreements or any provision thereof.

3. (a) The Federation 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, under the Federation Subsidiary Credit Agreement, under the Subsidiary Financing Agreements to which it is a party, 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, under the Federation Subsidiary Credit Agreement and under any of the Subsidiary Financing Agreements to which it is a party.

**D. Sub-projects**

1. The proceeds of the Subsidiary Credits shall be relented by the Federation to its respective Participating Utilities and Participating Municipalities, as the case may be, under a Subsidiary Financing Agreement to be entered into between the Federation and the relevant Participating Utility and Participating Municipality, as the case may be, under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

(a) the Subsidiary Financing provided by the Federation to the relevant Participating Utility or Participating Municipality under the Subsidiary Financing Agreement to carry out the Project shall be denominated in KM;

(b) the term of the Subsidiary Financing shall be twenty (20) years, including an 8-year grace period;

(c) the Federation shall charge the relevant Participating Utility and Participating Municipality a commitment charge at a rate equal to the rate payable by the Recipient under Section 2.03 of the Financing Agreement, on the principal amount of the Subsidiary Financing not withdrawn from time to time;

(d) the Federation shall charge the relevant Participating Utility and Participating Municipality a service charge on the principal amount of the Subsidiary Financing withdrawn and outstanding from time to time at a rate equal to two percent (2%) per annum; and

(e) the principal amount of the Subsidiary Financing shall be repayable in KM.

2. The Federation shall also obtain rights adequate to protect its interests and those of the Association, including the right to:

(a) suspend or terminate the right of the relevant Participating Utility or Participating Municipality to use the proceeds of the Subsidiary Credit, or obtain a refund of all or any part of the amount of the Subsidiary Credit then withdrawn, upon the failure of the relevant Participating Utility or Participating Municipality to perform any of its obligations under the Subsidiary Financing Agreement; and

(b) require the relevant Participating Utility or Participating Municipality to:

- (i) carry out their its Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of the proceeds of the Financing other than the Recipient;
- (ii) procure the goods, works and services to be financed out of the Subsidiary Credits in accordance with the provisions of this Agreement;
- (iii) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and
- (iv) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association.

#### **E. Safeguards**

1. The Federation shall take, or cause to be taken, all measures necessary to ensure that the Sub-projects are implemented in a timely manner in full compliance with the Environmental Management Plans and the Environmental Management Plan Framework.
2. For the implementation of Part C of the Project, the Federation shall approve the respective site-specific Environmental Management Plan for the Sub-Projects, satisfactory to the Association, prior to the commencement of the works.

### **Section II. Project Monitoring, Reporting and Evaluation**

#### **A. Project Reports**

The Federation shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports for its Respective Part of the Project in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators agreed with the Association. Each such Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Recipient not later two (2)



weeks after the end of the period covered by such report for incorporation and forwarding by the Recipient to the Association of the overall Project Report.

**B. Financial Management, Financial Reports and Audits**

1. The Federation shall maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial condition of the Federation, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The Federation shall have its financial statements referred to above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of these financial statements shall cover the period of one (1) fiscal year of the Federation. The audited financial statements for each period shall be furnished to the Association not later than six (6) months after the end of the period.

**Section III. Procurement**

All goods, works and services required for the Federation's Respective Part of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the provisions of Section III of Schedule 2 to the Financing Agreement.