

CONFORMED COPY

TF024050

Grant Agreement

(Economic Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(Acting as Administrator of Grant Funds
Provided by Canadian International Development Agency)

Dated November 13, 1996

TF024050

GRANT AGREEMENT

AGREEMENT, dated November 13, 1996 between BOSNIA AND HERZEGOVINA (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association), acting as Administrator (the Administrator) of grant funds provided by the Canadian International Development Agency (CIDA).

WHEREAS (A) CIDA has agreed to provide grant funds to finance the emergency social fund component of the Economic Reconstruction Project;

(B) CIDA has requested the Administrator, and the Administrator has agreed, to administer the grant funds;

(C) the Administrator has established a trust fund (the Trust Fund) to receive and administer the grant funds; and

(D) CIDA has agreed to make available to the Recipient a grant (the Grant) out of said grant funds to finance the cost of carrying out the project described in Schedule 2 to this Agreement (the Project) on the terms and conditions hereinafter set forth;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 1, 1985, with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Sections 2.01 (1), (2), (3), (4), (5), (6), (7), (8), (9), (12), and (13), 2.02 and 2.03;
 - (iii) Section 3.01;
 - (iv) Section 4.01 and 4.05;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02 (a), (b), (c), (d), (e), (g), and (h), 6.03, 6.04 and 6.06;
 - (vii) Section 8.01 (b);
 - (viii) Sections 9.01, 9.03, 9.04, 9.05, 9.06, 9.07, and 9.08;
 - (ix) Article X; and
 - (x) Article XI.
- (b) The General Conditions shall be modified as follows:
- (i) the term "Association," wherever used in the General Conditions, other than in Section 6.02 (e) thereof, means the International Development Association acting as Administrator of the Grant, except that in Section 6.02, the term "Association" shall also include the International Development Association acting in its own capacity;
 - (ii) the term "Borrower," wherever used in the General Conditions, means the Recipient;
 - (iii) the term "Development Credit Agreement," wherever used in the General Conditions, means this Agreement;
 - (iv) the term "Credit," wherever used in the General Conditions, means the Grant;
 - (v) the term "Credit Account," wherever used in the General Conditions, means the Grant Account, an account opened by the Administrator on its books in the name of the Recipient to which the amount of the Grant is credited;
 - (vi) the term "Project," wherever used in the General Conditions, means the Project described in Schedule 2 to this Agreement;
 - (vii) Section 5.01 is modified to read:

"Except as the Recipient and the Bank shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Administrator, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations." and
 - (viii) Section 6.03 is modified to read:

"If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty (30) days, or (b) at any

time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, or (f) the Association shall have received notice from the Guarantor pursuant to Section 6.07 with respect to an amount of the Credit, the Association may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Recitals to this Agreement have the respective meanings therein set forth, and the following additional terms have the following meanings:

- (a) "Federation" means the Federation of Bosnia and Herzegovina;
- (b) "MORSA" means the Ministry of Refugees and Social Affairs of the Federation;
- (c) "Sub-grant" means a grant made or proposed to be made by municipalities out of the proceeds of the Grant to poor households and the disabled for poverty alleviation;
- (d) "Municipalities" means the municipalities of the Federation;
- (e) "Subsidiary Grant Agreement" means the agreement entered into between the Recipient and the Federation pursuant to Section 3.02 (a) of this Grant Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Subsidiary Grant Agreement;
- (f) "CDN" means the Canadian Dollar, the currency of Canada;
- (g) "DEM" means the Deutsche Mark, the currency of the Federal Republic of Germany; and
- (h) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement.

ARTICLE II

The Grant

Section 2.01. (a) The Administrator agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount equivalent to five million Canadian Dollars (CDN 5,000,000).

(b) If further contributions by the CIDA to the Trust Fund shall be added to the Grant, the Administrator shall promptly inform the Recipient of the occurrence thereof.

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for payments made or, if the Administrator shall so agree, to be made in respect of the eligible expenditures.

- (b) The Recipient may, for the purposes of the Project, open and maintain in

Dollars a special deposit account in a commercial bank, satisfactory to the Administrator, on terms and conditions satisfactory to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Recipient of such later date.

Section 2.04. The Administrator shall be obligated to effect payments to or on behalf of the Recipient from the Grant only to the extent that an amount adequate to cover such payments shall have been paid by the CIDA into the Trust Fund.

ARTICLE III

Execution of the Project

Section 3.01. The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall cause the Federation to carry out the Project through MORSA, with due diligence and efficiency and in accordance with the Implementation Program set forth in Schedule 3 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of the Recipient and the Administrator.

Section 3.02. (a) For purposes of the carrying out of the Project, the Recipient shall provide the proceeds of the Grant to the Federation under a Subsidiary Grant Agreement to be entered into between the Recipient and the Federation under terms and conditions which shall have been approved by the Administrator, which shall include those described in the Implementation Program set forth in Schedule 3 to this Agreement, as such Implementation Program shall be modified from time to time by the agreement of the Recipient and the Administrator.

(b) The Recipient shall exercise its rights under the Subsidiary Grant Agreement in such manner as to protect the interests of the Recipient and the Administrator and to accomplish the purposes of the Grant, and except as the Administrator shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Grant Agreement or any provision thereof.

Section 3.03. (a) The Recipient shall cause the Federation to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Federation responsible for carrying out the Project or any part thereof.

(b) The Recipient shall cause the Federation to:

- (i) have the records and accounts referred to in paragraph (a) of this Section and those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Administrator;
- (ii) furnish to the Administrator as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Administrator shall have reasonably requested; and
- (iii) furnish to the Administrator such other information concerning said records and accounts and the audit thereof as the Administrator shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall cause the Federation to:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Administrator has received the audit report for the fiscal year in which the last

withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Administrator's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE IV

Effectiveness

Section 4.01. The following event is specified as a condition to the effectiveness of this Agreement, namely, that the Recipient shall have furnished to the Administrator evidence that the Subsidiary Grant Agreement has been executed with terms and conditions satisfactory to the Administrator.

Section 4.02. This Agreement shall enter into effect on the date upon which the Administrator dispatches to the Recipient notice of its acceptance of the evidence required by Section 4.01 of this Agreement.

Section 4.03. If, before dispatch to the Recipient of the notice referred to in Section 4.02 of this Agreement, any event shall have occurred which would have entitled the Administrator to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the Administrator may postpone the dispatch of said notice until such event or events shall have ceased to exist.

Section 4.04. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled all their obligations hereunder.

ARTICLE V

Representation

Section 5.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
Danijela Ozme 7
71000 Sarajevo
Bosnia and Herzegovina

For the Administrator and the Bank:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

INTBAFRAD
Washington, D.C.

Telex:

248423 (MCI)
64145 (MCI)

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

BOSNIA AND HERZEGOVINA

By /s/ S. Alkalaj

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(Acting as Administrator of Grant Funds
provided by Canadian International Development Agency)

By /s/ C. Wallich

Authorized Representative

SCHEDULE 1

Withdrawal of the Grant

1. The table below sets forth the Category of items to be financed out of the Grant, the allocation of the amount of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Grant Allocated (Expressed in CDN equivalent)	% of Expenditures to be Financed
(1) Sub-grants under Part D of the Project	5,000,000	100% of amounts disbursed

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) in respect of a Sub-grant unless the initial eligibility criteria and monthly eligibility criteria have been approved by the Administrator as set forth in Schedule 3 to this Agreement.

3. The Administrator may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for all Sub-grants, under such terms and conditions as the Administrator shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to support poverty alleviation.

The Project consists of the following activity subject to such modifications as the Recipient and the Administrator may agree from time to time to achieve the above objective:

Support for the implementation of the Federation's emergency social benefits program through provision of Sub-grants by Municipalities to poor households and the war-disabled for poverty alleviation.

* * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Implementation Program

Except as the Recipient and the Administrator shall agree, the Subsidiary Grant

Agreement shall contain the following Project implementation arrangements.

1. The Project shall be carried out through MORSA with the assistance of the Municipalities.
2. Sub-grants shall be made out of the proceeds of the Grant to provide minimal income to those individuals and households which are residents of the Federation and have no income earning capacity. For the purpose of the Project, MORSA shall establish eligibility criteria for households based on total household income. A higher eligibility criteria may be determined for Municipalities with higher income levels.
3. Initial eligibility criteria shall be established at the beginning of the implementation of the Project. The initial eligibility criteria shall be adjusted each month based on the total amount of Sub-grants provided, targeting an aggregate amount of disbursements in an amount equivalent to DEM 5,000,000 per month. The initial eligibility criteria and monthly adjustments are to be determined in a manner satisfactory to the Administrator.
4. The eligibility criteria and Sub-grant amounts shall be publicly announced. The eligible households may apply to the social affairs sections of Municipalities for Sub-grants. Applications shall be verified by the Municipalities through the information on income from pensions and all other available sources. The documentation to prove the eligibility criteria and the Sub-grant amount provided for each household shall be recorded and maintained for the purpose of monitoring the implementation of the Project. These records will be subject to annual review by the Administrator.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:
 - (a) the term "eligible Category" means Category (1) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term "Authorized Allocation" means an amount equivalent to \$1,800,000 to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Administrator has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Administrator a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.
 - (b) (i) For replenishment of the Special Account, the Recipient shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.
 - (ii) Prior to or at the time of each such request, the Recipient shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Administrator shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have

requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Administrator from the Grant Account under the respective eligible Category, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Administrator shall reasonably request, furnish to the Administrator such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient shall have failed to furnish the Administrator within the period of time specified in Section 3.04 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Administrator shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Category minus the total amount of all outstanding special commitments entered into by the Administrator pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Category shall follow such procedures as the Administrator shall specify by notice to the Recipient. Such further withdrawals shall be made only after and to the extent that the Administrator shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Administrator shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Administrator, the Recipient shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Recipient may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Administrator made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

