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CREDIT NUMBER 3538-1 BOS

Federation Project Agreement

(Additional Financing for the Community Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated June 5, 2007

CREDIT NUMBER 3538-1 BOS

PROJECT AGREEMENT

Agreement dated June 5, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and FEDERATION OF BOSNIA AND HERZEGOVINA (“Federation” or “FBH”) (“Project Agreement”) in connection with the Financing Agreement of same date between BOSNIA AND HERZEGOVINA (“Recipient”) and the Association (the “Financing Agreement”). 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 the Project 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, through the Federation PIU, shall carry out Part A 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, through the Federation PIU, shall carry out its Respective Part of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

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

3.02. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423(MCI) or 64145(MCI)	1-202-477-6391

3.03. 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/ Toby Linden
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. Institutional Arrangements

The Federation shall carry out its Respective Part of the Project in accordance with the following coordination mechanisms:

1. The Federation PIU shall be responsible for the overall management and implementation of the Federation's Respective Part of the Project, including the procurement, the financial management, the environmental management, and monitoring and evaluation, in accordance with the Operational Manual, including the Guidelines, and satisfactory to the Association.

Section II. Implementation Covenants

1. The Federation shall maintain the Federation PIU at all times during Project implementation, 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 its Respective Part of the Project in accordance with the Operational Manual, including the Guidelines, and satisfactory to the Association.

2. The Federation shall cause the Federation PIU to 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 to amend, repeal or waive, or permit to be amended, repealed or waived, the Operational Manual, including the Guidelines, or any provision of either one thereof.

3. 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 shall 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.

4. 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.1) is technically sound and feasible, and (i.2) contributes to improvement of the governance of Beneficiaries; and
- (ii) except as the Association shall otherwise agree, the amount of each Performance Grant shall not exceed \$50,000 equivalent, or ninety percent (90%) 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.

Section III. Subsidiary Agreement

1. To facilitate the carrying out of Part A of the Project, the Federation shall enter into a subsidiary agreement with the Recipient pursuant to which the Recipient shall make part of the proceeds of the Credit available to the Federation ("Federation Subsidiary Agreement"), under terms and conditions approved by the Association, which shall include the following:

- (i) the Recipient shall relend to the Federation an amount in Euro equivalent to the amount of the Credit allocated from time to time to Categories A.(1), (2), (3) and (4) set forth in the table in

paragraph 2 of Part A of Section VI of Schedule 2 to the Financing Agreement;

- (ii) the term of the Subsidiary Credit shall be 20 years, including a 10-year grace period;
- (iii) the Recipient shall charge the Federation a commitment charge at a rate equal to the rate payable under Section 2.03 of the Financing Agreement, on the principal amount of the Subsidiary Financing not withdrawn from time to time;
- (iv) the Recipient shall charge the Federation a service charge on the principal amount of the Subsidiary Financing withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.04 of the Financing Agreement; and
- (v) the principal amount of the Subsidiary Financing shall be repayable in Euro and shall be the equivalent in SDRs (determined as of the date or respective dates of repayment) of the value of currency or currencies withdrawn from the Financing Account on account of expenditures for the Project.

3. The Federation shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Federation shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

Section IV. Project Monitoring, Reporting, Evaluation

A. Project Reports

1. (a) The Federation, through the Federation PIU, shall monitor and evaluate the progress of its Respective Part of the Project and prepare Project Reports in accordance with the provisions of Section 4.08(b) of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than twenty one (21) days after the end of the period covered by such report.

- (b) The Federation, through the Federation PIU, shall:
 - (i) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2008, 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 the Federation's Respective Part 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 its Respective Part of the Project and the achievement of the objectives thereof during the period following such date; and

- (ii) review with the Association, by October 31, 2008, 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 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.

B. Financial Management, Financial Reports and Audits

1. The Federation shall maintain a financial management system and prepare financial statements in accordance with the provisions of Section 4.09 of the General Conditions, 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. Without limitation on the provisions of Part A of this Section, the Federation, through the Federation PIU, shall prepare and furnish to the Association not later than one month after the end of each calendar quarter, interim un-audited financial reports for its Respective Part of the Project covering such quarter, in form and substance satisfactory to the Association.

3. The Federation, through the Federation PIU, shall have its financial statements referred to above periodically audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of the financial statements shall cover the period of one fiscal year of the Federation or such other period as agreed by the Association. The audited financial statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section V. Procurement

All goods, works, services and Operating Costs 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 Schedule 2 to the Financing Agreement.