

CONFORMED COPY

CREDIT NUMBER 4080 BOS

RS Project Agreement

(Education Restructuring Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated June 12, 2006

CREDIT NUMBER 4080 BOS

PROJECT AGREEMENT

AGREEMENT, dated June 12, 2006 between the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the REPUBLIKA SRPSKA (Republika Srpska, or RS).

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 lend to the Borrower an amount in various currencies equivalent to six million seven hundred thousand Special Drawing Rights (SDR 6,700,000), 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 to be entered into between the Borrower and Republika Srpska (the 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 on terms and conditions set forth in said Subsidiary 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 Part B 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 Part B of the Project with due diligence and efficiency and in conformity with appropriate administrative, educational, financial, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for 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 Part B of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement and the Program Manual.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for Part B of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.03. Republika Srpska shall exercise its rights under the 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 take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Credit Agreement or any provision thereof.

Section 2.04. (a) Republika Srpska shall, at the request of the Association, exchange views with the Association with regard to the progress of Part B of the Project, the performance of its obligations under this Agreement, the Subsidiary Credit Agreement and the Program Manual, 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, the Subsidiary Credit Agreement and the Program Manual.

Section 2.05. 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 and services, plans and schedules, records and reports, maintenance and land acquisition) in respect of Part B of the Project.

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 accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

- (b) Upon the Association's request, Republika Srpska shall:
- (i) have its financial statements (balance sheets, statements of income and expenses and related statements) for the period indicated in the Association's request, audited, in accordance with consistently applied auditing standards acceptable to the Association, 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 date of the Association's request: (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such period as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
 - (iii) furnish to the Association such other information concerning such records and accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

ARTICLE IV

Effective Date; Termination; Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the later of: the date upon which the Development Credit Agreement becomes effective; and 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 two following 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, telex or facsimile 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 addresses as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. 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	248423 (MCI) or	(202) 477-6391
Washington, D.C.	64145 (MCI)	

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 documents 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 by 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 the City of Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Dirk Reinermann

Authorized Representative

REPUBLIKA SRPSKA

By /s/ Dragan Cavic

Authorized Representative

SCHEDULE 1

Implementation Program

1. Republika Srpska agrees that the Project Steering Board shall be responsible for overall supervision of the Project, and shall ensure that the Republika Srpska Minister of Education and Culture shall participate actively and shall contribute effectively in the activities of the Project Steering Board for the entire duration of the Project.
2. Republika Srpska agrees that the secretariat established for purposes of the Project within the Sector for Education, Science, Culture and Sports within the State Ministry of Civil Affairs shall be responsible for:
 - (a) facilitating and coordinating overall Project implementation, as well as managing the Secondary Education Grants program under Part A.1 and Part B.1 of the Project in accordance with the Program Manual and with the selection criteria, the procedures and upon the terms and conditions set forth in the Program Manual;
 - (b) Project procurement and financial management in accordance with the Program Manual; and
 - (c) on behalf of the Project Steering Board, monitoring and evaluating Project performance in accordance with indicators agreed with the Association and preparing progress implementation reports.
3. In connection with the contracting of the procurement and financial management consultants to the Project Coordination Secretariat for the purposes mentioned in Section 2(b) of Schedule 4 of the Development Credit Agreement, Republika Srpska agrees that it shall, from time to time, as and when may be required for Project purposes, enter into one or more consultants' agreements, satisfactory to the Association, with such consultant(s) and shall obtain a written no-objection from the Association prior to the hiring or dismissal of any such consultant.
4. Republika Srpska agrees that the School Grants Evaluation Board and the School Grants Quality Assurance Team shall be maintained for the entire duration of the Project with suitably qualified personnel in sufficient numbers and with adequate funds, facilities and other resources required for the Project in a manner satisfactory to the Association and that they shall each fulfill their respective responsibilities under the Project in the manner contemplated in the Program Manual.
5. Republika Srpska shall adopt and thereafter maintain the Program Manual, and shall also maintain the Subsidiary Credit Agreement, in form and content satisfactory to the Association, and shall duly perform all its obligations under the Program Manual and the Subsidiary Credit Agreement and shall not take or concur in any action which would

have the effect of amending, assigning, abrogating or waiving the Program Manual or the Subsidiary Credit Agreement without obtaining the prior approval of the Association.

6. (a) Each Secondary Education Grant shall be made by Republika Srpska to a Beneficiary which meets the criteria set forth in the Program Manual in respect of the organization, management, staffing and other resources required for the efficient carrying out of the Sub-project.

(b) Republika Srpska shall cause the Beneficiary to: (i) carry out the Sub-project with due diligence and efficiency and in conformity with appropriate administrative, financial, technical and educational practices; and (ii) provide, promptly as needed, the funds, facilities, services and other resources required for the Sub-project.

(c) Secondary Education Grants shall be made in accordance with the provisions of the Program Manual and on terms whereby Republika Srpska shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Association, including the right to:

- (i) require the Beneficiary to carry out the Sub-project with due diligence and efficiency and in conformity with appropriate educational, technical, economic and financial practices, to maintain adequate records, and to provide, promptly as needed, the funds, facilities and other resources required for the purpose;
- (ii) require that: (i) the goods and consultants' services to be financed out of the proceeds of the Grant shall be procured in accordance with the procedures set forth in the Program Manual and in Schedule 3 of the Development Credit Agreement; and (ii) such goods and services shall be used exclusively in the carrying out of the Sub-project;
- (iii) inspect, by itself or jointly with representatives of the Association, if the Association shall so request, the goods and the sites included in the Sub-project, the operation thereof, and any relevant records and documents;
- (iv) require that the Beneficiary shall take out and maintain such insurance, against such risks and in such amounts, as shall be consistent with sound commercial practice, including such insurance to cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Grant to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary to repair or replace such goods;

- (v) obtain all such information as the Association, the Borrower or the Project Steering Board shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Sub-project; and
- (vi) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Grant upon failure by such Beneficiary to perform its obligations under its contract with Republika Srpska.