

CONFORMED COPY

RELATED TO TF024050

Subsidiary Grant Agreement

(Economic Reconstruction Project)

between

BOSNIA AND HERZEGOVINA

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated November 28, 1996

RELATED TO TF024050

SUBSIDIARY GRANT AGREEMENT

AGREEMENT, dated November 28, 1996, between BOSNIA AND HERZEGOVINA (the Recipient) and the FEDERATION OF BOSNIA AND HERZEGOVINA (the Federation).

WHEREAS (A) by a Grant Agreement dated November 13, 1996, between the Recipient and the International Development Association acting as Administrator (the Administrator) of grant funds provided by the Canadian International Development Agency (CIDA), the Administrator has agreed to make available to the Recipient a grant in an amount equivalent to five million Canadian Dollars (CDN 5,000,000) (the Grant) for carrying out of the project described in Schedule 1 to this Agreement (the Project);

(A) the Federation has agreed to implement the Project as described in Schedule 1 to this Agreement and the Recipient has decided to make available the proceeds of the Grant to the Federation for purposes of the carrying out the said Project; and

(B) the Recipient and the Federation, in consideration of the Administrator's entry into the Grant Agreement with the Recipient, have agreed to undertake the obligations set forth in this Agreement.

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Definitions

Section 1.01. Wherever used in this Subsidiary Grant Agreement, unless the context shall otherwise require, the several terms defined in the Grant Agreement and the General Conditions as defined in Section 1.01 of the Grant Agreement have the respective meanings therein set forth.

Section 1.02. The provisions of the General Conditions and the terms and conditions of the Grant Agreement shall, mutatis mutandis, apply in full force and effect to this Agreement.

ARTICLE II

Subsidiary Grant

Section 2.01. The Recipient shall make available to the Federation, on terms and conditions set forth in this Agreement, an amount equivalent to five million Canadian Dollars (CDN 5,000,000) (the Subsidiary Grant).

Section 2.02. The Recipient shall cause the Ministry of Finance to open a Grant Account (the Subsidiary Grant Account) on its books in the name of the Federation and the amounts of the Subsidiary Grant shall be granted to the Subsidiary Grant Account. The Ministry of Finance or any person duly authorized by him is authorized to withdraw funds from said Subsidiary Grant Account for the purposes of the Project.

Section 2.03. The right of the Federation to withdraw the proceeds of the Subsidiary Grant is subject to the right of the Recipient to withdraw the proceeds of the Grant.

Section 2.04. (a) Upon the request of the Federation, the Recipient shall promptly make application for withdrawal from the Grant Account of amounts which the Recipient is entitled to withdraw therefrom for expenditures by the Federation for the Project.

(b) The Recipient shall open and thereafter maintain, for the benefit of the Federation, the Special Account in a commercial bank, satisfactory to the Administrator and on terms and conditions acceptable to the Administrator, including appropriate protection against set-off, seizure or attachment. Deposits into and payments out of the Federation Special Account shall be made in accordance with the provisions of Schedule 3 to this Agreement.

(c) The Federation shall furnish to the Recipient, for submission to the Administrator, all such documents as are required by the Grant Agreement or as shall be requested by the Administrator in order to enable the Recipient to make the withdrawal from the Grant Account requested by the Federation or enable the Recipient to request replenishment of the Special Account.

ARTICLE III

Obligations of the Federation

Section 3.01. The Federation shall carry out the Project with due diligence and efficiency, and in conformity with appropriate administrative and financial practices.

Section 3.02. The Federation shall carry out the Project in accordance with the Implementation Program set forth in the Schedule 2 to this Agreement.

Section 3.03. (a) The Federation shall 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 Federation shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for each 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 or through the Recipient, as soon as available, but in any case not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Recipient shall have reasonably requested; and

(iii) furnish to the Recipient such other information concerning said records, accounts and the audit thereof as the Recipient 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 Federation shall:

(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 Recipient has received the audit 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 Recipient's representatives, based on an appropriate notice, 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

Obligations of the Recipient

Section 4.01. The Recipient shall take or cause to be taken all actions necessary or appropriate to enable the Federation to perform its obligations under this Agreement and shall not take or permit to be taken any action which would prevent or interfere with such performance.

ARTICLE V

Settlement of Disputes

Section 5.01. Any dispute arising out of this Agreement or in connection therewith which cannot be amicably settled between the Recipient and the Federation shall be finally settled in the courts of the Recipient under the laws of the Recipient.

ARTICLE VI

Suspension; Cancellation

Section 6.01. If the right of the Recipient to disbursement from the Grant is suspended or terminated by the Administrator pursuant to the provisions of the Grant Agreement, the right of the Federation to disbursement from the Subsidiary Grant shall, likewise and simultaneously, be suspended or cancelled, as the case may be.

ARTICLE VII

Miscellaneous Provisions

Section 7.01. This Agreement shall become effective on the date upon which the Grant Agreement becomes effective.

Section 7.02. Any notice or request required or permitted to be given or to be under this Agreement and any agreement between the parties shall be in writing.

Section 7.03. The following addresses are specified for the purpose of this Agreement:

For Bosnia and Herzegovina:

Ministry of Finance
Danijela Ozme 7
71000 Sarajevo
Bosnia and Herzegovina

For the Federation of Bosnia and Herzegovina:

Ministry of Finance of the Federation
Borise Kovacevica
(Zgrada SDK)
71000 Sarajevo
Bosnia and Herzegovina

If the above addresses and/or names are changed, the party concerned shall immediately notify the other party hereto in writing of the new addresses and/or names.

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

FEDERATION OF BOSNIA AND
HERZEGOVINA

By /s/ Muratovic
Authorized Representative

By /s/ Kapetanovic
Authorized Representative

SCHEDULE 1

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 2

Implementation Program

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 3

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 the Grant 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 the Grant 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.