RS Project Agreement

(Agriculture and Rural Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLIKA SRPSKA

Dated August 31, 2007
CREDIT NUMBER 4325-BOS

PROJECT AGREEMENT

Agreement dated August 31, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and REPUBLIKA SRPSKA (“RS”) (“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 Republika Srpska 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 RS declares its commitment to the objective of the Project. To this end, the RS, through its representatives on the PSC, and the JTWG, shall participate in providing strategic guidance, institutional coordination, review of Project progress and assistance in the resolution of obstacles to Project implementation, and through the RS MOA and the RS PCU, with the support of the RS Inspection Directorate and the RS Agency for Agricultural Extension Services, as the case may be, shall carry out Part 3 the Project, and shall provide funds for the carrying out of Part 1 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 RS shall otherwise agree, the RS shall carry out Part 3 the Project, and shall provide funds for the carrying out of Part 1 of the Project in accordance with the provisions of the Schedule to this Agreement.

ARTICLE III - REPRESENTATIVE; ADDRESSES

3.01. The Republika Srpska’s Representative is the Minister of Finance of Republika Srpska.
3.02. The Association’s Address is:

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

Cable: INDEVAS  
Telex: 248423(MCI)  
Facsimile: 1-202-477-6391

3.03. The Republika Srpska’s Address is:

Ministry of Finance of Republika Srpska  
Ul. Vuka Karadzica 4  
78000 Banja Luka  
Bosnia and Herzegovina

Facsimile: 387 51 331351
AGREED at Sarajevo, Bosnia and Herzegovina, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Marco Mantovanelli  
Authorized Representative

REPUBLIKA SRPSKA

By /s/ Aleksandar Dzombic  
Authorized Representative
SCHEDULE

Execution of the Republika Srpska’s Respective Part of the Project

Section I. Institutional Arrangements

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

1. The PSC, with the technical guidance of the JTWG, shall be responsible for providing overall strategic guidance, institutional coordination, review of Project progress, and assistance in the resolution of obstacles to Project implementation.

2. The RS, through the RS MOA and the RS MOF, respectively, shall appoint and thereafter maintain at all times during the Project implementation two, duly qualified representatives on the PSC, and through the RS MOA, the RS Inspection Directorate, and the RS Agency for Agricultural Extension Services, respectively, shall appoint and thereafter maintain at all times during the Project implementation three duly qualified representatives on the JTWG, all with terms of reference and resources satisfactory to the Association, and shall cause the representatives at all times to participate in the performance of the obligations of the PSC and JTWG under the Project in a timely and effective manner, and in accordance with the terms of the Operational Manual.

3. The RS shall maintain the RS PCU at all times during Project implementation, with terms of reference and resources satisfactory to the Association, and with competent staff in adequate numbers.

4. The RS, through the RS PCU, shall cause procurement and financial management activities under Part 1 and Part 3 of the Project to be carried out by the RS PCU in accordance with the terms and conditions of the Financing Agreement, the General Conditions, and the Operational Manual.

Section II. Implementation Covenants

1. The RS, through the RS MOA, the RS PCU, the RS MOF, the RS Inspection Directorate and the RS Agency for Agricultural Extension Services shall:

   (i) take all measures necessary to perform their respective obligations under the Operational Manual, Rural Development Grants Operational Manual and the EMF in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and
(ii) not amend or waive, or permit to be amended or waived the Operational Manual, Rural Development Grants Operational Manual or the EMF or any provisions of any one thereof, except with the prior written approval of the Association.

2. No later than March 31, 2008, the RS shall adopt a staffing plan for the restructuring of the RS MOA, on terms and conditions satisfactory to the Association.

Section III. Subsidiary Agreement

1. To ensure the financing of Part 1 of the Project and to facilitate the carrying out and financing of Part 3 of the Project, the RS 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 RS ("RS Subsidiary Agreement"), under terms and conditions approved by the Association, which shall include the following:

   (i) the Recipient shall relend to the RS an amount in Euro equivalent to one million two hundred fifty four thousand Special Drawing Rights (SDR 1,254,000), of the amount of the Credit allocated to Categories 1(b), 2(b) and 3(b) set forth in the table in Part A.2 of Section IV of Schedule 2 to the Financing Agreement;

   (ii) the Recipient shall relend to the RS an amount in Euro equivalent to five million three hundred ninety five thousand Special Drawing Rights (SDR 5,395,000) of the amount of the Credit allocated from time to time to Categories 9, 10, 11, 12 and 13 set forth in the table in Part A.2 of Section IV of Schedule 2 to the Financing Agreement;

   (iii) the term of the Subsidiary Financing shall be twenty (20) years, including a ten (10)-year grace period;

   (iv) the Recipient shall charge the RS 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;

   (v) the Recipient shall charge the RS 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

   (vi) the principal amount of the Subsidiary Financing shall be repayable in Euro and shall be the equivalent in Special Drawing Rights (determined as of the date or respective dates of repayment) of the value of the
currency or currencies withdrawn from the Financing Account on account of expenditures for the Project.

2. The RS shall exercise its rights under the RS 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 RS shall not assign, amend, abrogate or waive the RS Subsidiary Agreement or any of its provisions.

**Section IV. Anti-Corruption**

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

**Section V. Sub-projects**

1. For the purposes of Parts 3 B(ii) of the Project, the RS shall make Rural Development Grants to Beneficiaries in accordance with eligibility criteria and procedures set forth in the Rural Development Grants Operational Manual, and acceptable to the Association, which shall include the following: sub-project proposals for Rural Development Grants shall be guided by the Agriculture and Rural Development Strategy and shall be selected, appraised, implemented and evaluated in accordance with the principles and procedures set forth in the Operational Manual, the Procurement Guidelines, the Anti-Corruption Guidelines, and the EMF.

2. The RS shall make each Rural Development Grant under a Rural Development Grant Agreement with the respective Beneficiary on terms and conditions approved by the Association, which shall include the following:

   (a) Rural Development Grant Agreements shall be denominated in KM.

   (b) The RS shall obtain rights adequate to protect its interests and those of the Association, including the right to:

      (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Rural Development Grant, or obtain a refund of all or any part of the amount of the Rural Development Grant, upon the Beneficiary’s failure to perform any of its obligations under the Rural Development Grant Agreement; and

      (ii) require each Beneficiary to: (A) carry out its obligations under the Rural Development Grant Agreement 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 loan proceeds other than the Recipient, and the EMF; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the Rural Development Grant Agreement in accordance with the provisions of this Agreement, and the Procurement Guidelines; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives; (E) (1) 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 (2) 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; (F) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The RS shall exercise its rights under each Rural Development Grant 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 RS shall not assign, amend, abrogate or waive any Rural Development Grant Agreement or any of its provisions.

Section VI. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The RS, through the RS PCU, shall provide to the BH PCU whatever support may be required to 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 semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
(b) The RS, through the RS PCU, shall provide to the BH PCU whatever support may be required to:

(i) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 15, 2010, 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 Republika Srpska’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 March 15, 2010, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, the Republika Srpska shall 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 RS 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 RS, including the operations, resources and expenditures related to its Respective Part of the Project.

2. The RS, through the RS PCU, shall prepare and furnish to the Association not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering such quarter, in form and substance satisfactory to the Association.

3. The RS, through the RS PCU, shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the RS. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section VII. Procurement

All goods, works and services required for Republika Srpska’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.