Federation Project Agreement

(Agriculture and Rural Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

FEDERATION OF BOSNIA AND HERZEGOVINA

Dated August 31, 2007
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 Federation declares its commitment to the objective of the Project. To this end, the Federation through its representatives on the PSC, and the JT WG, 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 Federation MOA and the Federation PCU, with the support of the Federation Inspection Directorate and the Federation Agency for Agricultural Extension Services, as the case may be, shall carry out Part 2 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 Federation shall otherwise agree, the Federation shall carry out Part 2 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 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: INDEVAS
Telex: 248423(MCI)
Facsimile: 1-202-477-6391
Washington, D.C.

3.03. The Federation’s Address is:

Ministry of Finance of the Federation of Bosnia and Herzegovina
Mehmeda Spahe 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/ Marco Mantovanelli

Authorized Representative

FEDERATION OF BOSNIA AND HERZEGOVINA

By /s/ Borjana Kristo

Authorized Representative
Section I. Institutional Arrangements

The Federation 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 Federation, through the Federation MOA and the Federation MOF, respectively, shall appoint and thereafter maintain at all times during the Project implementation, two duly qualified representatives on the PSC, and through the Federation MOA, the Federation Inspection Directorate, and the Federation 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 Federation shall maintain the Federation 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 Federation, through the Federation PCU, shall cause procurement and financial management activities under Part 1 and Part 2 of the Project to be carried out by the Federation 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 Federation, through the Federation MOA, the Federation PCU, the Federation MOF, the Federation Inspection Directorate and the Federation 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 Federation shall adopt a staffing plan for the restructuring of the Federation MOA, on terms and conditions satisfactory to the Association.

3. No later than September 30, 2008, the Federation shall establish the Federation Agency for Agricultural Extension Services, in a manner and with the composition and terms of reference 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 2 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 one million three hundred sixty thousand Special Drawing Rights (SDR 1,360,000) of the amount of the Credit allocated to Categories 1(a), 2(a) and 3(a) 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 Federation an amount in Euro equivalent to five million seven hundred and ninety one Special Drawing Rights (SDR 5,791,000) of the amount of the Credit allocated from time to time to Categories 4, 5, 6, 7 and 8 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 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;

(v) 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

(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 Federation shall exercise its rights under the Federation 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 Federation Subsidiary Agreement or any of its provisions.

**Section IV. Anti-Corruption**

The Federation 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 2 B(ii) of the Project, the Federation 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 Federation 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 Federation 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
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 Federation 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 Federation 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 Federation, through the Federation 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 Federation, through the Federation 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 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 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 Federation 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 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. The Federation, through the Federation 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 Federation, through the Federation 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 Federation. 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 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 Section III of Schedule 2 to the Financing Agreement.