RS Project Agreement

(Additional Financing for the Community Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

REPUBLICA SRPSKA

Dated June 5, 2007
Agreement dated June 5, 2007, entered into between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and REPUBLIKA SRPSKA (“Repulika Srpska” or “RS”) (“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. Republika Srpska declares its commitment to the objectives of the Project. To this end, Republika Srpska, through the Republika Srpska PIU, shall carry out Part B 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 Republika Srpska shall otherwise agree, Republika Srpska, through the Republika Srpska 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. 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: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: 1-202-477-6391

3.03. 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/ Toby Linden
Authorized Representative

REPUBLICA SRPSKA

By /s/ Milan Jelic
Authorized Representative
SCHEDULE

Execution of Republika Srpska’s Respective Part of the Project

Section I. Institutional Arrangements

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

1. The Republika Srpska PIU shall be responsible for the overall management and implementation of Republika Srpska’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. Republika Srpska shall maintain the Republika Srpska PIU at all times during Project implementation, with such staff and resources as shall be required for the Republika Srpska 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. Republika Srpska shall cause the Republika Srpska 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 B.1.(c) of the Project, Republika Srpska 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 B.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 Republika Srpska 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 Republika Srpska 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 Republika 
Srpska 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 B of the Project, Republika Srpska 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 Republika Srpska (“RS Subsidiary 
Agreement”), under terms and conditions approved by the Association, which shall 
include the following:

(i) the Recipient shall relend to Republika Srpska an amount in 
Euro equivalent to the amount of the Credit allocated from time 
to time to Categories B.(5), (6), (7) and (8) 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 Republika Srpska 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 Republika Srpska 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. Republika Srpska 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, Republika Srpska 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) Republika Srpska, through the Republika Srpska 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) Republika Srpska, through the Republika Srpska 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 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 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. Republika Srpska 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 Republika Srpska, 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, Republika Srpska, through the Republika Srpska 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. Republika Srpska, through the Republika Srpska 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 Republika Srpska 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 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 Schedule 2 to the Financing Agreement.