December 7, 2015

H.E. Vjekoslav Bevanda
Minister
Ministry of Finance and Treasury
Trg BiH 1
Sarajevo, Bosnia and Herzegovina

Re: Bosnia and Herzegovina: Strengthening Financial Management and Control Project
Grant No. TF0A0656

Excellency:

In response to the request for financial assistance made on behalf of Bosnia and Herzegovina ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds under the Multi-Donor Trust Fund for Strengthening Accountability and the Fiduciary Environment (SAFE) in South East Europe, proposes to extend to the Recipient a grant in an amount not to exceed one hundred fifty thousand six hundred United States Dollars ($150,600) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.
Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date set forth in page 1 of this Agreement; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within ninety (90) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of grant funds under the Multi-Donor Trust Fund for Strengthening Accountability and the Fiduciary Environment (SAFE) in South East Europe

By

Ellen A. Goldstein
Country Director
Europe and Central Asia

AGREED:
BOSNIA AND HERZEGOVINA

By:

Authorized Representative

Name: WOESław BEVANDA
Title: MINISTER OF FINANCE AND TREASURY
Date: 21 DECEMBER 2015

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006;
(3) “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011;
(4) “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers”, dated January 2011; and
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following additional terms have the following meanings:

(a) “Federation” means the Federation of Bosnia and Herzegovina, a constitutive part of the Recipient, and includes any successor or successors thereto.

(b) “FMF” means the Federal Ministry of Finance of the Federation of Bosnia and Herzegovina, or any legal successor thereto.

(c) “Incremental Operating Costs” means the reasonable incremental operating expenses incurred by the Recipient on account of the Project implementation, management and monitoring including translation and interpretation services; office maintenance, minor office equipment, office supplies, printing, utilities, operating expenses, communications, transportation, fuel, insurance for goods, bank charges, advertisement monitoring and evaluation, and such other expenditures as may be agreed upon by the World Bank, but excluding salaries of the Recipient’s and the Federation’s civil service staff.

(d) “PIU” means the Project implementing unit under the Federation of Bosnia and Herzegovina’s Federal Ministry of Finance to carry out the activities of the Project.

(e) “Project Agreement” means the Project Agreement to be entered into between the World Bank and the Federation for the purposes of carrying out the Project, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

(f) “Subsidiary Agreement” means the Subsidiary Agreement to be entered into between the Recipient and the Federation, acceptable to the World Bank and pursuant to which the Recipient makes the proceeds of the Grant available to the Federation for carrying out the Project, as the same may be amended from time to time with the prior approval of the World Bank, and such term includes all schedules and agreements supplemental to the Subsidiary Agreement.

(g) “Training” means the Project related events to be carried out according to annual training and workshop plans agreed to by the World Bank, including study tours, training courses, visibility events, seminars,
workshops and other training activities, not included under goods, non-consulting services, and consultancy service contracts, including costs of training materials, space and equipment rental, local travel, \textit{per diem} costs of trainees and trainers' fees, and interpretation and translation services, etc.

\textbf{Article II}

\textbf{Project Execution}

2.01. \textit{Project Objectives and Description.} The objective of the Project is to contribute to the strengthening of fiscal responsibility and sound financial management and control in the Federation’s budget cycle.

The Project consists of the following parts:

Provision of consultants’ services, capacity building and conducting training for:

\textbf{Part A:} Diagnostic assessment of risks and existing ex-ante and ex-post controls in budget planning and execution of grants, subsidies, and transfers in the selected pilot institutions;

\textbf{Part B:} Conducting training for FMF and other ministries’ staff in the application of diagnostic tools for the assessment of the status and quality of the financial management and control arrangements;

\textbf{Part C:} Preparation of a report on findings from the assessment to FMF with recommendations for improved financial management and control over the targeted resources;

\textbf{Part D:} Design and preparation of training materials and delivery workshops on risk management/internal controls to FMF staff and management and staff in the selected institutions; and

\textbf{Part E:} Drafting revised internal rules and procedures in the selected pilot institutions.

2.02. \textit{Project Execution Generally.} The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall cause the Federation to carry out the Project through the PIU in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. \textit{Institutional and Other Arrangements.} For purposes of carrying out the Project, the Recipient shall cause the Federation to maintain at all times during Project implementation the PIU with professional staff in adequate numbers and with terms of reference, qualifications and functions acceptable to the World Bank, to perform all Project related functions including, \textit{inter alia}, procurement and financial management.

2.04. \textit{Subsidiary Agreement}
(a) To facilitate the carrying out and financing of the Project, the Recipient shall make the proceeds of the Grant available to the Federation under a Subsidiary Agreement between the Recipient and the Federation, under the same terms and conditions as the Grant, approved by the World Bank and including the Anti-Corruption Guidelines.

(b) The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the World Bank and to accomplish the purposes of the Grant. Except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

2.05. Documents; Records.

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven (7) years and six (6) months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

2.06. Project Monitoring, Reporting and Evaluation.

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than one (1) month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.07. Financial Management.
(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall, upon the World Bank's request, have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the period indicated in the World Bank's request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six (6) months after the date of the World Bank's request.

2.08. Procurement

(a) General. All consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 (revised July 2014) ("Consultant Guidelines") in the case of consultants' services; and

(ii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

(c) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in item (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection of Individual Consultants; and (B) Single-source procedures for the Selection of Individual Consultants.
(d) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

(e) **Document Retention.** Notwithstanding the provisions of paragraphs 2(j) and 5 of Appendix 1 to the Procurement Guidelines, and paragraphs 2(k) and 5 of Appendix 1 to the Consultant Guidelines, the Recipient: (i) shall retain all documentation with respect to each contract as described in said paragraphs for at least seven years and six months after the Closing Date set forth in Section 3.03 of this Agreement; (ii) shall furnish such documentation to the World Bank at any time upon request; and (iii) hereby authorizes the World Bank to disclose such documentation to the Donor.

**Article III**

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consultants’ services, Training and Incremental Operating Costs under the Project</td>
<td>150,600</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>150,600</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is March 31, 2016.
Article IV
Recipient’s Representative; Addresses

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance and Treasury.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance and Treasury
Trg BiH 1
Sarajevo, Bosnia and Herzegovina

Facsimile:
(387-33) 202-930

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

International Bank for Reconstruction and Development/International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INTBAFRAD
Telex: INDEVAS 248423 (MCI) or 1-202-477-6391
Facsimile: 64145 (MCI)