H E. Nikola Špirić
Minister of Finance and Treasury
Ministry of Finance and Treasury
Trg BiH 1
71000 Sarajevo
Bosnia and Herzegovina

Re: Swedish International Development Cooperation Agency Trust Fund
Grant No. TF011205
Bosnia and Herzegovina - Technical Assistance for Improving Investment Climate and Institutional Strengthening

Excellency:

In response to the request for financial assistance made on behalf of Bosnia and Herzegovina ("Recipient" or "BiH"), 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 provided by the Swedish International Development Cooperation Agency ("SIDA"), under the Bosnia and Herzegovina Technical Assistance for Improving Investment Climate and Institutional Strengthening Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed United States Dollars three million and seven hundred fifty thousand (US$3,750,000) ("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 received a contribution. 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 Donor 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 after the date of countersignature and confirmation from the Bank that the conditions for effectiveness set forth in Article IV have been satisfied.

Very truly yours,
INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By

[Signature]
Anabela Abreu
Country Manager
World Bank Office: Sarajevo

AGREED:

BOSNIA AND HERZEGOVINA

By

[Signature]
Title: Minister of Finance and Treasury
Date: December 6, 2012

Enclosures:

(3) Guidelines: Procurement under IBRD Loans and IDA Credits, dated January 2011
(5) 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
Article I
Standard Conditions; Definitions


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.

Article II
Project Execution

2.01. **Project Objectives and Description.** The main objective of this Project is to improve the investment climate of, and reduce the costs and risks of conducting business in, Bosnia and Herzegovina through improving its inspection system. The Project consists of the following parts:

**Part I. Federation**

**Component I:** Establishment of the Interoperability Information System (IIS) to enable electronic data exchange between relevant institutions, respecting principles of data ownership in accordance with authority levels in BiH, including:

- Establishing an information system that is accessible to all relevant institutions;
- Designing and implementing an information system in alignment with EU interoperability framework standards;
- Enabling the exchange of a variety of data, including data about inspection surveillance, data about business registration and other data between relevant institutions in alignment with positive regulations and agreements about data exchange; and
- Engaging an international resident advisor for overall design and implementation of the IIS system.
Component 2: **Inspection Reform by upgrading quality infrastructure and working with inspection bodies on the following and related activities**

- Establishing a risk-management system for inspections to ensure information-sharing and EU approach to risk-based inspections;
- Creating inspection checklists aligned with EU practices;
- Building institutional capacity at the Entity level with inspections, including technical training of inspections on new EU standards, study tours to EU to learn about best practices;
- Assisting in creating modern internal controls, market surveillance and food and safety inspections on the Entity level, including any relevant inspection laws;
- Assisting in management and organizational changes of Entity inspectorate and improving legal infrastructure related to inspection laws; and
- Assisting in establishment of cantonal inspectorate in the Central Bosnia Canton.

Component 3: **Redesigning and Streamlining procedures for business entry and exit**

- Eliminating unnecessary pre-registration requirements and documentation;
- Upgrading technical capacity of registration courts to comply with existing laws;
- Harmonizing laws at the Entity level to the extent possible; and
- Streamlining of post-registration requirements.

Component 4: **Project Implementation:**

- Project management support; and
- Capacity building in procurement, project implementation and financial management within Inspectorates.

Part II. Republika Srpska

Component 1: **Establishment of the Interoperability Information System (IIS) to enable electronic data exchange between relevant institutions, respecting principles of data ownership in accordance with authority levels in BiH, including:**

- Establishing an information system that is accessible to all relevant institutions;
- Designing and implementing an information system in alignment with EU interoperability framework standards;
- Enabling the exchange of a variety of data, including data about inspection surveillance, data about business registration and other data between relevant institutions in alignment with positive regulations and agreements about data exchange; and
- Engaging an international resident advisor for overall design and implementation of the IIS system.

**Component 2: Inspection Reform by upgrading quality infrastructure by working with inspection bodies on the following and related activities**

- Establishing a risk-management system for inspections to ensure information-sharing and EU approach to risk-based inspections;
- Creating inspection checklists aligned with EU practices;
- Building institutional capacity at the Entity level with inspections, including technical training of inspections on new EU standards, study tours to EU to learn about best practices;
- Introducing ISO standards for RS inspections (general standard ISO 9001; ISO 17020 for enforcement/control institutions, and possibly 27001 for IT); and
- Assisting in creating modern internal controls, market surveillance and food and safety inspections on the Entity level, including any relevant inspection laws.

**Component 3: Redesigning and Streamlining procedures for business entry and exit**

- Eliminating unnecessary pre-registration requirements and documentation;
- Upgrading of technical capacity of registration courts to comply with existing laws;
- Harmonizing laws at the Entity level to the extent possible; and
- Streamlining of post-registration requirements.

**Component 4: Project Implementation**

- Project management support; and
- Capacity building in procurement, project implementation and financial management within Inspectorates.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient, through the Entities, shall carry out the Project 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
2.03. **Institutional and Other Arrangements.**

(a) The Recipient shall, and shall cause the Entities to, maintain their respective PMUs at all times during Project implementation with terms of reference and resources satisfactory to the World Bank, and with competent staff in adequate numbers.

(b) The Recipient shall ensure that the Inspectorates engage professional experts to perform procurement and financial management activities in accordance with the World Bank's relevant policy and guidelines for their respective PMUs.

(c) The Recipient shall, and shall cause the Entities and their PMUs to, duly perform all obligations under the Operational Manual in a timely manner and in accordance with its terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth. The Operations Manual may not be amended, abrogated or waived without the written consent of the World Bank.

(d) (i) To facilitate the carrying out and financing of Part I of the Project, the Recipient shall make the amount of two million two hundred fifty thousand United States Dollars (USD$2,250,000) out of the proceeds of the Grant available to the Federation under a subsidiary grant agreement between the Recipient and the Federation ("Federation Subsidiary Grant Agreement"), under the same terms and conditions as the Grant, approved by the World Bank and including the application of the Anti-Corruption Guidelines and the implementation of the Operations Manual. Part I shall include activities necessary at the level of the State to ensure functionality of the quality infrastructure throughout BiH. The cost of the State level activities shall be up to USD$100,000 and include relevant activities in component I only.

(ii) The Recipient shall ensure that the Federation appoints a PMU within the Federation Inspectorate to be responsible for the day-to-day implementation of its respective Part of the Project.

(e) (i) To facilitate the carrying out and financing of Part II of the Project, the Recipient shall make the amount of one million five hundred thousand United States Dollars (USD$1,500,000) out of the proceeds of the Grant available to Republika Srpska under a subsidiary grant agreement between the Recipient and Republika Srpska ("RS Subsidiary Grant Agreement"), under the same terms and conditions as the Grant, approved by the World Bank and including the application of the Anti-Corruption Guidelines and the implementation of the Operations Manual. Part II shall include activities necessary at the level of the Brcko District to ensure functionality of the quality infrastructure throughout BiH. The cost of the Brcko District level activities shall be up to USD$50,000 and include relevant activities in component I only.
(ii) The Recipient shall ensure that the RS appoints a PMU within the RS Inspectorate to be responsible for the day-to-day implementation of its respective Part of the Project.

(f) The Recipient shall exercise its rights under the Subsidiary Grant Agreements 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 Grant Agreements or any provision thereof.

2.04. Donor Visit. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. 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, and agreed with, the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one 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 months after the Closing Date.

2.06. 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 45 days after the end of each calendar quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall cause the Entities to have their project Financial Statements audited in accordance with the provisions of Section 2.07(b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

7
2.07 **Procurement.**

(a) **General.** All goods and 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) Section I of the Procurement Guidelines, in the case of goods; and

(ii) Sections I and IV of the Consultant Guidelines, in the case of consultants’ services; and

(iii) 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 1.16 of the Procurement Guidelines and paragraph 1.24 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

c) **Particular Methods of Procurement of Goods**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods for those contracts specified in the Procurement Plan: Shopping.

d) **Particular Methods of Procurement of Consultants’ Services**

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

(ii) The following methods may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Least Cost Selection; (B) Selection based on Consultants’ Qualifications; (C) Selection of Individual Consultants; (D) Selection under a Fixed Budget; and (E) Single-Source Selection.
Review by the World Bank of Procurement Decisions.

(i) 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.

(ii) The following prior review procedures shall apply to each contract for the employment of individual consultants: (A) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the World Bank for its prior review and approval; (B) the contract shall be awarded only after the World Bank's approval shall have been given; and (C) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures.

(a) The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) this Section; and (iii) 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 100% of Eligible Expenditures inclusive of Taxes, as set forth in the table in paragraph (b) below.

(b) The table below specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“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 US$)</th>
<th>Percentage of Expenditures to be Financed (inclusive of taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Consultants’ Services, Training, Audit Costs and Incremental Operating Expenses under Part I of the Project</td>
<td>$2,250,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, Consultants’ Services, Training, Audit Costs and Incremental Operating Expenses under Part II of the Project</td>
<td>$1,500,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>Total:</strong></td>
<td><strong>$3,750,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

(c) For the purposes of this Section 3.01:

(i) “Training” means expenditures incurred to finance the cost of training activities and workshops carried out under the Project, including costs of training materials, training providers, facilities, and related travel expenditures and allowances provided to the participants in such training and workshops; and

(ii) “Incremental Operating Expenses” means expenditures incurred on account of the implementation of the Project, including office supplies, communication, travel and bank charges.

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 countersignature of this Agreement.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06(c) of the Standard Conditions is June 30, 2014.

**Article IV**

**Additional Remedies**

4.01. The Additional Events of Suspension referred to in Section 4.02(k) of the Standard Conditions consist of the following:

(a) the Federation or the RS shall have failed to perform any of their respective obligations under the Project Agreements or the Subsidiary Agreements;
(b) as a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Federation or the RS shall be able to perform its obligations under the Project Agreement or the Subsidiary Agreement or that one of the PMUs shall be able to perform its respective obligations under this Agreement; and

(c) the Recipient, the Federation, the RS, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of the PMUs or for the suspension of any of their respective activities.

Article V
Effectiveness

5.01. This Agreement shall become effective upon receipt by the World Bank of evidence satisfactory to it that the conditions specified below have been satisfied:

(a) that this Agreement and the Subsidiary Grant Agreements have been executed and duly authorized or ratified (if appropriate) by all necessary governmental action;

(b) that the Project Agreements have been executed on behalf of the World Bank and the Entities and duly authorized or ratified (if appropriate) by all necessary governmental action by the Entities;

(c) that procurement and financial management experts have been engaged by the Inspectorates, satisfactory to the World Bank, to implement the activities under this Agreement; and

(d) that the Recipient, the Entities, and Brcko District have each appointed a Project Coordinator.

5.02. The Additional Legal Matters consist of the following:

(a) the Subsidiary Grant Agreements have been duly authorized or ratified by the Recipient and the Entities and are legally binding upon the Recipient and the Entities in accordance with their terms.

5.03 This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date one hundred and twenty (120) days after the date of this Agreement unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.
Article VI
Recipient's Representative; Addresses

6.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance and Treasury of Bosnia and Herzegovina.

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

   The Ministry of Finance and Treasury  
   Trg BiH 1  
   71000 Sarajevo  
   Bosnia and Herzegovina  

   Tel: +387 33 205 345  
   Facsimile: +387 33 202 930

6.03. **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  
   1818 H Street, N.W.  
   Washington, D.C. 20433  
   United States of America

   Cable: INTBAFRAD  
   Telex: 248423 (MCI) or 4145 (MCI)  
   Facsimile: 1-202-477-6391
APPENDIX

Section I. Definitions


2. “Category” means a category set forth in the table in Section IV of Schedule 4 to this Agreement.


4. “Entity” means either the Federation or RS, as the case may be, and “Entities” means the Federation and RS, collectively.

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

6. “Federation Administration for Inspection Issues” or “Federation Inspectorate” means said agency within the Federation and includes any successor or successors thereto.

7. “Federation Project Agreement” means the Project Agreement between the Bank and the Federation, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Federation Project Agreement.

8. “Federation Subsidiary Grant Agreement” means the Subsidiary Grant Agreement between the Recipient and the Federation, pursuant to which the Recipient makes a part of the proceeds of the Grant available to the Federation for the carrying out of Part I of 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 Federation Subsidiary Grant Agreement.

9. “Inspectorates” means the Republika Srpska Inspectorate and the Federation Administration for Inspection Issues and includes any successor or successors thereto.

10. “Operations Manual” means the Recipient’s manual for the Project, in form and substance acceptable to the World Bank, setting out the procedures to be followed by the Recipient and/or the PMUs in relation to the implementation of the Project.
11. "PMU" means the project management unit within the Entity and is the unit responsible for the day-to-day implementation of the Entity’s respective Part of the Project.


13. "Project Agreement" means either the Federation Project Agreement or the RS Project Agreement, as the case may be, and "Project Agreements" means said Project Agreements, collectively.

14. "Project Coordinator" means an individual appointed by the Recipient, the Entities or Brcko District who will liaise with the PMUs, other Project Coordinators and World Bank staff responsible for the Project to assist in project implementation and oversight.

15. "Republika Srpska" or "RS" means Republika Srpska, a constitutive part of the Borrower, and includes any successor or successors thereto.

16. "Republika Srpska Inspectorate" or "RS Inspectorate" means said agency within the RS and includes any successor or successors thereto.

17. "RS Project Agreement" means the Project Agreement between the World Bank and RS, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the RS Project Agreement.

18. "RS Subsidiary Grant Agreement" means the Subsidiary Grant Agreement between the Recipient and RS, pursuant to which the Recipient makes a part of the proceeds of the Grant available to RS for the carrying out of Part II of 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 RS Subsidiary Grant Agreement.


20. "Subsidiary Grant Agreements" means the Federation Subsidiary Grant Agreement and the RS Subsidiary Grant Agreement, collectively.