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BOSNIA AND HERZEGOVINA

EMERGENCY PUBLIC WORKS AND EMPLOYMENT PROJECT

July 8, 1996

**Agriculture and Regional Development Division
Central and Southern Europe Departments
Europe and Central Asia Region**

CURRENCY EQUIVALENTS

Currency unit = Bosnia and Herzegovina Dinar (BHD)

100 BHD = US\$ 0.67
(as of April 31, 1996)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

BH	Bosnia and Herzegovina
ETF	Employment and Training Foundation
EU	European Union
IDA	International Development Association
IEBL	Inter-Entity Boundary Line
NCB	National Competitive Bidding
NS	National Shopping
NGO	Non-Governmental Organization
RS	<i>Republika Srpska</i>
SBH	State of Bosnia and Herzegovina
SOE	Statement of Expenditure

GOVERNMENT FISCAL YEAR

January 1 - December 31

BOSNIA AND HERZEGOVINA

EMERGENCY PUBLIC WORKS AND EMPLOYMENT PROJECT

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A. BACKGROUND

Employment Situation

1. Mass unemployment as a result of the war is one of the major concerns of the authorities of Bosnia and Herzegovina. An estimated 64 percent of the resident labor force is unemployed and many of those with formal jobs receive only a fraction of their pre-war wages or are underemployed because firms are working at reduced capacity. About 50 percent of the labor force was employed in state-owned industrial enterprises before the war. The majority of these have now collapsed and their future is uncertain. Many will need to go through a process of restructuring and privatization before they can restart, and several large, non-viable industrial plants that closed during the war may not reopen.

2. Such high unemployment levels could threaten peace and economic recovery unless ways are found to create jobs rapidly. Of particular concern are the job prospects for the 425,000 soldiers (245,000 in the Federation and 180,000 in the Republika Srpska) currently being demobilized. The initial phase of demobilization involved those soldiers who were able to return to their former homes and jobs and those whose education had been disrupted by the conflict. The second phase of demobilization, involving about 140,000 soldiers, is currently ongoing and poses more problems as many of these soldiers are unlikely to be able to return to their former homes and jobs. New job opportunities are required for these soldiers and also for the 1.5 million people internally displaced during the war. Lack of employment opportunities also represent a major constraint to the return of refugees. UNHCR currently estimates that about 145,000 refugees could return this year if adequate shelter and infrastructure, as well as job opportunities are available.

3. Reconstruction expenditures, estimated at over \$5 billion in the period 1996-1999, will generate considerable short and medium term employment. Both specialized and unskilled manpower will be needed on a large scale for the reconstruction of housing, water and power networks, schools, health facilities, roads, bridges and other infrastructure. Overall job growth in 1996 (May-December) is expected to be about 20%. Though high, this is still far below what will be required to absorb the large numbers of unemployed.

4. In recognition of the need to urgently and pro-actively create job opportunities, the Government, with the support of the World Bank, has designed an Employment Generation Program. This has job creation as its primary objective and forms an essential part of the Priority Reconstruction Program. The program has four main elements:

- (i) support for labor-intensive **public works** to provide temporary employment for the unemployed, including demobilized soldiers, displaced persons and returning refugees.
- (ii) provision of **employment counseling** for demobilized soldiers and the unemployed on available employment, training and business opportunities.
- (iii) support for **education and job training** for demobilized soldiers and the unemployed.

(iv) support for **microenterprise development**, in the form of credit and business services for the unemployed, including displaced persons, refugees, war widows and demobilized soldiers.

5. This Public Works and Employment Project supports the first element of this strategy by financing labor-intensive public works at the municipality level. The employment counseling and education and job training aspects are being supported through the Demobilization and Reintegration Project. Microenterprise support is being provided for by the Local Initiatives Project, the pilot phase of which is currently ongoing in Tuzla.

Damage to Municipal Infrastructure

6. The war in Bosnia and Herzegovina has shattered the country's infrastructure. About 60 percent of the housing stock has been damaged. Transport networks have been devastated — about 35 percent of the roads and 40 percent of the bridges have been damaged or destroyed, either due to direct damage, or to lack of maintenance. Energy production has dropped by about 90 percent due to the destruction of power transmission lines and power stations. Water networks have also been badly damaged leaving many communities without a functioning water or sewage system. About 50 percent of schools and health facilities are in need of repair or reconstruction.

7. In addition to direct war damage, there is the indirect damage created by four years of war and neglect. Garbage and the war debris have accumulated, particularly in towns and cities along the confrontation line. Drainage and irrigation canals are blocked and many secondary roads are badly damaged having been used well beyond their intended capacity during the war.

Institutional Setting

8. This Project would focus on local level projects, those at the municipality level. Under the political system established by the Dayton Agreements and the 1994 Federation Constitution there are four levels of government, of which the **municipality** level is the lowest. There are a total of 106 municipalities in the whole of Bosnia and Herzegovina, some of which are now divided by the inter-entity boundary line between the Federation and the Republika Srpska. Municipalities (*opstinas*) have self-rule on local matters, including local utilities, maintenance of local infrastructure, local social welfare, municipal courts, and education.

9. Services at the municipal level are provided by municipal service companies called *komunalno* that function like municipally owned joint stock companies. These include utility companies for water and power, as well as companies responsible for public transport, solid waste disposal, public parks and cemeteries. The revenues of these enterprises are kept separate from municipal revenues. These municipal service companies traditionally initiated proposals for project investments and, if the projects were local and did not require federal funding, they were also planned and implemented by the company.

10. The **cantons** are the next level of Government in the Federation. The equivalent regional governments in Republika Srpska are known as **districts**. In the Federation, these regional governments are responsible for the police force, education and cultural policy, housing policy,

policies relating to public services, local land use, local energy production, local business and charitable organizations, local radio and TV, cantonal tourism, and the financing of cantonal activities. For those municipalities whose ethnic majority is different from that of the canton as a whole, the canton must delegate the responsibility for certain functions, including education, culture, tourism, local business and charitable organizations, radio and television. The cantons have only been functioning since the signing of the Dayton Agreements and in many areas they are still weak and their relationship with the municipalities is sometimes unclear and politically difficult.

11. At the next level, there are two constituent political **entities** -- the Federation of Bosnia and Herzegovina and the Republika Srpska. The Federation and Republika Srpska governments have responsibility for defense, internal affairs, justice, economic policy (including planning and reconstruction), fiscal policy, energy policy, and the financing of their activities. The highest level of government is the **State of Bosnia and Herzegovina (SBH)**. The State has exclusive responsibility in the areas of foreign policy, foreign trade, customs policy, international law, immigration, common telecommunications, air traffic control, civilian coordination of activities of the armed forces in the whole territory of SBH, the finances of the SBH budget and a common monetary policy.

B. BANK RESPONSE AND STRATEGY

World Bank Strategy and Programs in Bosnia and Herzegovina

12. On April 1, 1996 Bosnia and Herzegovina (BH) fulfilled the conditions of succession to the Socialist Federal Republic of Yugoslavia's membership in the Bank, IDA and IFC. Membership is retroactive to February 25, 1993.

13. Since early 1995, the Bank Group has been deeply involved in developing a donor-funded reconstruction program for BH. A joint mission of the Bank, IMF, EU and EBRD in late 1995 resulted in the proposed Priority Reconstruction Program which was first presented to a donors' meeting, co-sponsored by the Bank and the EU in Brussels, a week after the signing of the Paris/Dayton Peace Agreement. This meeting led to donor commitments of about US\$600 million for immediate reconstruction activities. A second donors' conference, again co-chaired by the Bank and the EU, was held in mid-April, 1996 and resulted in additional donor pledges on the order of US\$1.2 billion for financing priority reconstruction activities during 1996.

14. The Bank has been following a two-track assistance strategy, which seeks to leverage its limited resources with significant resource transfer from donors. First, before arrears resolution, the Bank supported selected immediate assistance programs through a special Trust Fund for Reconstruction of Bosnia and Herzegovina (TFBH) which is providing US\$125 million on concessional terms equivalent to those offered by IDA, as well as an additional US\$25 million in grant funds. Seven emergency operations, committing the entire US\$150 million, have been approved under the TFBH: an *Emergency Recovery Project*; a *Water, Sanitation, and Solid Waste Urgent Works Project*; an *Emergency Farm Reconstruction Project*; an *Emergency*

Transport Project; an Emergency District Heating Reconstruction Project; an Emergency Education Reconstruction Project and a War Victims Rehabilitation Project. Second, following arrears resolution (which was made possible by the effectiveness of the Consolidation Loan package on June 14, 1996), while the Bank will continue to focus on supporting the implementation of the reconstruction program, its assistance program will be broadened to include support for the initial phase of the government's macroeconomic and institutional reforms. In the area of reconstruction, Bank assistance will focus on employment generation and housing, both needed to facilitate the reintegration of demobilized soldiers and the return of refugees, as well as on continued support for the rehabilitation of infrastructure and clearance of landmines.

Pilot Projects

15. During project preparation, the Bank has financed pilot public works sub-projects, using resources from the Netherlands Trust Fund for Bosnia and Herzegovina. The objective of such pilot projects was to (i) assess the level of demand for labor-intensive public works, (ii) gather information on the price of unskilled labor and other input prices; (iii) refine sub-project eligibility criteria; and (iv) develop and test standard sub-project contract documents. To date, four pilot projects have been financed with an average cost of about US\$ 50,000:

- repair of 3kms of **tramway to Ilidza**. Financing provided for labor costs only (295 man-months); equipment financed by the European Commission. This project is currently under implementation.
- clean-up of six city **cemeteries** in Sarajevo in preparation for the relocation of graves to official cemeteries. Financing of labor (171 man-months) and equipment costs. Implementation is nearing completion.
- clean-up of **war ruins** in Goradze municipality. Financing of labor (170 man-months). Currently under implementation.
- emergency **road repairs** and clean-up of **war ruins** in the municipality of Maglaj. Financing of labor (80 man-months), materials and equipment. Currently under implementation.

16. Further sub-projects are under consideration and will be financed prior to project effectiveness. Lessons learnt from these pilot projects include the finding that labor is available at the estimated cost of labor (10DM/day net); the need to coordinate carefully with other donor-financed projects and maximize the amount of project funds spent on labor by encouraging other donors to finance the equipment costs of the public works sub-projects. For the Ilidza tramway repair pilot project, for example, the European Commission financed the tramlines and other necessary equipment, while the Netherlands Trust Fund financed labor costs.

Lessons Learned from Previous Bank/IDA Experience.

17. The Bank has considerable experience in financing small-scale public works projects, most commonly through so-called social fund operations. These projects have proven successful

at building flexible and efficient institutional mechanisms for financing local level investments. The design of the proposed Project incorporates the lessons from these operations, while taking into account the country context and conditions of Bosnia and Herzegovina. At an operational level, lessons learnt include:

- a) the importance of *institutional autonomy and freedom from political interference* for the fund to allow it to operate quickly and transparently;
- b) the importance of *demand driven operations*, meaning that local entities decide on which sub-projects they wish to apply for financing and prepare the project proposal;
- c) the importance of *simplified procurement and disbursement procedures* for efficient and rapid sub-project implementation;
- d) the need for *clear operational procedures* to guide project targeting and sub-project selection; and
- e) the need for *strong supervision and financial controls* at both managerial and sub-project levels.

Rationale for Bank Involvement

18. After four years of war, Bosnia and Herzegovina is faced with critical problems of unemployment. This project addresses this situation directly by rapidly increasing employment opportunities -- an estimated 100,000 man-months of labor could be created under the project. The Bank is well-placed to assist the Government set-up the project given its experience with similar operations in over 20 other countries.

Relationship with other Bank-financed Projects

19. This Project has been designed to complement other projects under the employment generation program, particularly the *Demobilization and Reintegration Project* and the *Local Initiatives Project*. The *Demobilization and Reintegration Project* aims to assist the economic reintegration of displaced workers, particularly demobilized soldiers, into the civilian workforce through provision of job placement counseling, training and education. This Project will provide temporary job opportunities for these demobilized soldiers. The *Local Initiatives Project* will provide financial and technical support to microentrepreneurs wishing to set up businesses, complementing the more unskilled employment created under this Project.

20. The Project will also complement other investments under the priority reconstruction program by financing smaller-scale, more labor-intensive projects proposed by municipalities, such as the clearing of war damage, cleaning of drainage canals, and minor road repair, complementing some of the larger, more capital-intensive projects financed by the World Bank. In the area of housing, the Project will only provide financing for minor public housing repairs in small rural municipalities not covered by the *Emergency Housing Repair Project*. Water supply sub-projects would consist primarily of the labor costs of digging trenches and laying pipes, complementing the investments in equipment covered under the *Water, Sanitation and Solid Waste Urgent Works Project*.

C. PROJECT DESCRIPTION

Project Objectives

21. The objectives of the proposed project are to:
- (a) create rapid employment for those unemployed as a result of the war;
 - (b) rehabilitate small scale public infrastructure and clean-up war damaged public property and assets;
 - (c) reinforce the decision-making role and responsibilities of municipality governments in municipal infrastructure project design and management; and
 - (d) to deliver visible impact at the local level in the near term.

Project Components

22. To support the above objectives, the Project would have two components. Under the first component, financing would be provided for public works projects, as further described below. The second component would provide institutional support for the establishment and operation of an Employment and Training Foundation (ETF), in both the Federation and the Republika Srpska, to administer project implementation.

Component 1: Public Works (US\$41.4 million or 92% of total cost)

23. The Project would finance labor-intensive, public works sub-projects at the municipality level, up to a maximum cost of US\$100,000 each. A total of about 440 sub-projects would be financed over the two year project implementation period creating an estimated 100,000 man-months of work. Sub-projects would be proposed by municipalities and would be simple in conception and scope, requiring no longer than six months to complete. Sub-projects would be screened according to three eligibility criteria: (i) degree of labor intensity; (ii) economic impact; and (iii) social or environmental impact. During appraisal, it was agreed that given the employment creation objective of the project, sub-projects should have, on average, a labor content of 60%. Further sub-project eligibility principles are outlined in Appendix 1.

24. According to the above criteria, first priority works would include clearing of war damage, cleaning and rehabilitation of surface drains, ditches and river banks, rural road repair, park and cemetery rehabilitation and reforestation projects. Second priority works include rehabilitation of public housing, roads, repair of urban sewage and city street drains, rehabilitation of social service buildings, such as schools and clinics, and repair of water supply networks. A complete list of eligible sub-projects and their ranking is provided in Appendix 1.

25. To ensure a needs-based distribution of Project funds, **cantonal allocations** would be calculated based on four criteria agreed during appraisal: (i) cantonal population, (ii) number of refugees, (iii) amount of war damage (based on no. of damaged houses), and (iv) number of unemployed (provided reliable data is available). The determination of these allocations, satisfactory to IDA, is a condition of effectiveness. These allocations would represent a ceiling amount to be disbursed for sub-projects in any one canton. The initial agreed allocations may be

adjusted during project implementation, with the approval of IDA, to reflect implementation performance.

Component 2: Institutional Support (US\$3.6 million or 8% of total cost)

26. This component would provide financing for the establishment and institutional capacity building of a Public Works Department within the ETFs currently being set-up in both the Federation and the Republika Srpska. These Foundations would also act as the umbrella institutions for the Demobilization and Reintegration Project. Specifically, financing would be provided for:

(a) staff salaries, vehicles, office equipment and operating expenses for the Public Works Department of the ETFs (US\$2.48 million). The Federation Public Works Department would have a total of 26 staff and the RS Department 16 staff at the height of operations.

(b) technical assistance (US\$0.83 million). Technical assistance (34 man-months of foreign and 24 man-months of local) would be provided to help set-up the ETFs and refine their operational procedures, including assistance to set-up financial controls, define sub-project eligibility criteria, establish a management information system (MIS), and set-up a unit cost database.

(c) training (US\$0.13 million). Training would be provided for local staff, for example in computer skills and database management.

27. In order to maintain high levels of efficiency and cost-effectiveness, the Foundations will operate on an administrative overhead of 8% or less of the total Project cost.

Project Cost and Financing Plan

28. **Project Costs.** The total estimated cost of the Project is US\$45 million equivalent, net of taxes and duties; US\$30 million for the Federation and US\$15 million for the Republika Srpska. The foreign exchange costs amount to US\$9.73 million or about 22 percent of the total project cost. A summary of Project costs by component is shown in Table 1 below with detailed cost tables for the Federation and the Republika Srpska provided in Appendix 2.

Table 1: Project Cost Summary (US\$ '000)

Component	% Foreign exchange	Local	Foreign	Total	FEDERAT.	SPRSKA
Public Works Fund	20%	31,560	7,890	39,450	26,340	13,110
Institutional Support						
Salaries	0%	1,390	-	1,390	910	480
Technical Assistance	76%	200	630	830	580	250
Training	54%	60	70	130	80	50
Vehicles & Equipment	81%	80	350	430	270	160
Operating expenses	52%	320	340	660	410	250
Total Institutional Support	40%	2,050	1,390	3,440	2,250	1,190
Contingencies	21%	1,660	450	2,110	1,410	700
Total Project Cost	22%	35,270	9,730	45,000	30,000	15,000

29. **Financing Plan.** Of the total Project cost of US\$45 million, IDA would finance US\$ 10 million (22 percent of total costs). Cofinancing for the remaining US\$35 million is currently being sought. To date, there is a firm commitment of US\$4 million from the Norwegian Government and a tentative commitment of US\$2-3 million from the Italian Government. The Project is designed in such a way that it can become fully operational with only IDA financing. The financing plan is shown in Table 2 below.

Table 2: Financing Plan (US\$ million)

Category of	IDA	Others	TOTAL
Investments			
Public Works	6,390	35,000	41,390
Training	140		140
Technical Assistance	870		870
Vehicles & Equipment	450		450
Total Investments	7,850	35,000	42,850
Recurrent Costs			
Salaries	1,460		1,460
Operating expenses	690		690
Total Recurrent Costs	2,150		2,150
TOTAL	10,000	35,000	45,000
% of total	22.0%	78.0%	100.0%

Economic Justification

30. The primary objective of this Project is the creation of short-term employment. Overall, the project would create an estimated 100,000 man-months of work. The main direct economic benefit will be the increase in household income for those employed under the Project. This increase in purchasing power will, in turn, provide a boost to the local economy.

31. Given the job creation objective of the Project, highest priority will be given to those sub-projects with the highest employment generation potential (see Appendix 1). These sub-projects, which include municipal-level clean-up and rehabilitation of parks, riverbanks, and cemeteries

will have social benefits (return to “normalcy”, removal of evidence of war, environmental quality), but cannot be expected to have a high economic returns as other investments. The less employment intensive, but more economically productive, sub-projects are listed on the menu as priority 2. These priority 2 activities, such as repair of utilities, streets, housing and other more economic infrastructure, will have more measurable and significant economic returns. Road repairs, for example, will increase the efficiency of travel time; irrigation rehabilitation will increase crop yields; and repairs to surface sewage and water supply systems will reduce water loss. Given the demand driven nature of the project, however, it is not possible at this stage to estimate the breakdown of the portfolio of sub-projects and an overall economic rate of return for the Project.

Environmental Impact

32. The project will have limited environmental impact given the nature and size of the sub-projects and has been assigned a “B” environmental classification. Many of the eligible sub-projects will, in fact, lead to environmental and public health benefits, for example, cleaning-up of garbage and war debris, cleaning and rehabilitation of drainage canals and riverbanks, and repair of urban sewage systems and drains.

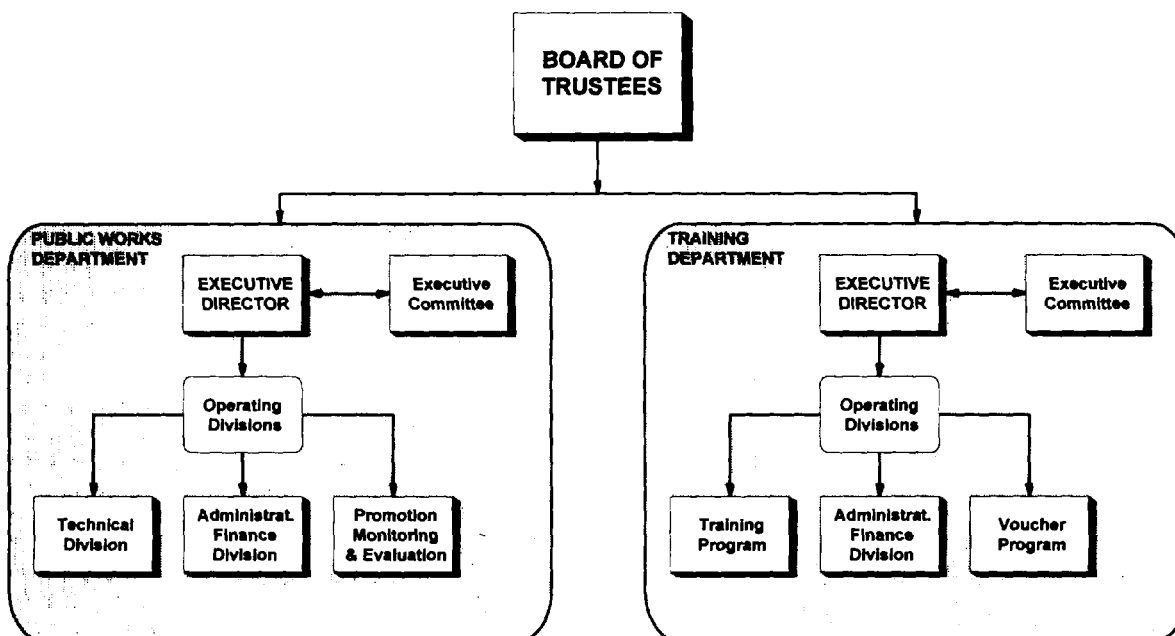
D. PROJECT IMPLEMENTATION

Project Organization and Management

33. **Institutional Structure.** The ETFs in the Federation and the Republika Srpska would have overall responsibility for project implementation in their respective territories. Project funds will be lent to the State of Bosnia and Herzegovina on IDA terms. These funds will be on-lent to the Federation and Republika Srpska, which shall make the proceeds of the credit available to their respective ETFs on a non-reimbursable, grant basis under Subsidiary Financing and Project Implementation Agreements acceptable to IDA.

34. The ETFs would be established as autonomous, non-profit agencies under a Charter, satisfactory to IDA. This Charter has been approved by the Governments of the Federation and Republika Srpska (see Appendix 4). The organizational structure of the ETFs is depicted below:

Figure 1: Institutional Structure of Employment and Training Foundation



35. The ETFs have Boards of Trustees composed of representatives from relevant ministries and organizations, including the Ministry of Finance, Ministry of Physical Planning and Environment, Ministry of Social Affairs and Refugees, the Ministry of Defense, and the Employment Institutes¹ and the Chamber of Commerce. The Board of Trustees of the Federation ETF (FETF) has already been appointed. Appointment of the Board of Trustees of the Republika Srpska ETF (RETF) is a condition of disbursement of the Republika Srpska component. The Boards will be chaired by their respective Ministries of Finance. The Boards, which will meet every three months, will be responsible for approving the regulations, policies, procedures and annual budget of the ETF.

36. Each ETF will have a Public Works Department set up to manage the day-to-day implementation of the Project. This Department will be headed by an Executive Director, appointed by the Board of Trustees. During negotiations, agreement was reached that the Executive Director and other senior management positions would be staffed satisfactorily to IDA. The Executive Director of the FETF has already been appointed. An Executive Committee, chaired by the Executive Director of the Foundation, and comprising the Financial Director and two members of the Board appointed by the Chairperson on a rotating basis, shall have the responsibility for approving proposals for sub-project financing up to amounts specified in the Departments' Operational Manual.

37. **Sub-project Cycle.** The project cycle of the Public Works Department will be divided into three main stages: promotion and screening, appraisal, and implementation (see Appendix

¹

In the Federation, there would be two representatives from each ministry or organization, however, each agency would have only one vote.

5). During the promotional phase, which has already commenced as part of project preparation and start-up, municipalities will be informed of the existence of the ETFs and the guidelines and eligibility criteria for sub-project applications. Municipalities would then submit proposals to the ETF for project financing. It is they who would identify and design the projects at their own cost. Other entities, such as local community groups and NGOs, could put forward proposals for financing by the ETF, however, such sub-projects would have to be channeled through the municipal governments. Sub-project applications would be screened by the ETF according to the eligibility criteria (see Appendix 1).

38. If deemed eligible, the ETF technical staff will appraise the sub-projects in the field and check the sub-project design and cost estimates. The appraisal of the sub-project costs will be done using a unit cost data base maintained by the ETF. This database will be a tool to monitor market prices throughout the country and would provide reference prices for labor and other inputs against which proposed cost estimates would be evaluated.

39. Once appraised, the sub-project dossiers would be forwarded to the Executive Committee for approval. Taking into account the size (maximum sub-project cost of US\$100,000) and large number of sub-projects (estimated at 440 in total), IDA would require prior approval of only the first 40 sub-project contracts (25 in the Federation and 15 in Republika Srpska) or until contracting is done satisfactorily to IDA. After this, ex-post review of a random selection of sub-projects would be carried out on a regular basis. These approval procedures may be changed if the maximum project limit is increased over US\$100,000.

40. Upon approval, the municipality would select the contractor to carry out the works, in accordance with Bank procurement procedures as directed by the ETF and using a standard sub-project contract, acceptable to IDA. The contractor might be a municipal utility company, private contractor or NGO depending on the nature of the works. The municipality would supervise the works on a regular basis. The ETF technical staff would also carry out site supervision visits at least once a month to check the progress of the works and authorize requested disbursements. Disbursements would be made directly to the contractor by the ETF in tranches based on work activities completed and confirmed during the site supervision visits. Payroll records would also be provided by the contractor to enable the ETF to monitor employment creation.

Procurement

41. The proposed procurement arrangements for the Project are summarized in Table 3 below.

Table 3: Summary of Proposed Procurement Arrangements^{1/}
(US\$ '000)

Category of Expenditure	Simplified NCB	National Shopping	Direct Contracting	Force Account	Other ^{2/}	Total
Public Works	17,790 (2,695)	- -	14,490 (2,261)	9,110 (1,434)	- -	41,390 (6,390)
Training & Technical Assistance	- -	- -	- -	- -	1,010 (1,010)	1,010 (1,010)
Vehicles & Equipment	- -	450 (450)	- -	- -	- -	450 (450)
Recurrent Costs	- -	30 (30)	- -	- 2,120	2,120 (2,120)	2,150 (2,150)
Total Project	17,790 (2,695)	480 (480)	14,490 (2,261)	9,110 (1,434)	3,130 (3,130)	45,000 (10,000)

^{1/} Figures in parentheses are the estimated amounts to be financed by IDA.

^{2/} The "other" category includes consulting services to be procured following Bank guidelines for the Use of Consultants, and salaries, fees and other operating costs (travel and utilities), for which procurement procedures would not be applicable.

42. The Public Works Departments of the ETFs would have overall responsibility for procurement activities. ETF staff will be trained in Bank procurement procedures during the procurement seminars organized by the Resident Mission (the Executive Director of the Federation ETF has already participated in a procurement seminar held in June 1996).

43. **Civil Works.** The civil works contracts under the Project consist of public works sub-projects identified and proposed by the municipalities up to a maximum sub-project cost of US\$100,000. These contracts, which would consist of labor and materials, would be dispersed throughout the country. The small size of the contracts and their dispersed nature make international competitive bidding inappropriate. Therefore, procurement of civil works would be carried out as described below. Municipalities would be responsible for carrying out procurement, in accordance with the following procedures provided to the municipality by the ETF.

44. Procurement of Small Works (simplified national competitive bidding) will be used for the public works contracts, except as described in paras. 45 and 46 below. Works shall be procured under contracts awarded under lumpsum, fixed price contracts on the basis of quotations obtained from at least three qualified domestic contractors in response to a written invitation. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully. Approximately US\$17.8 million of contracts (US\$2.7 million of IDA funds) are expected to be awarded following these procedures.

45. **Direct contracting** will be used for contracts under US\$50,000 up to a total value of US\$2.26 million (US\$1.76 million for the Federation component and US\$0.50 million for Republika Srpska component) when justified by the unique character of the works or when only one private contractor is available, or the municipality lacks the capacity to obtain three quotations. The unit cost database managed by the ETF will set an acceptable price for the contract, and the ETF will supervise the sub-projects to assure the work is of acceptable quality.

46. **Force account** will be used for contracts up to a total value of US\$1.4 million of IDA funds (US\$1.12 million for the Federation and US\$0.32 million for Republika Srpska), provided that the contractor agency can satisfy four requirements: (i) the works are uniquely suited to the skills and capacities of the agency; (ii) the agency can demonstrate that it has the ability to account for the funds disbursed to it; (iii) the agency will execute the contract for a fixed price based on completed works; and (iv) the agency agrees to full supervision by the ETF of completed works before the ETF authorizes disbursement. The ETFs' unit cost database will establish reference prices for such contracts.

47. **Goods and Equipment.** Goods and equipment to be procured under the Project's institutional support component include vehicles, computers and office equipment totaling an estimated US\$0.45 million. National shopping will be used for contracts for goods available in Bosnia and Herzegovina up to an estimated cost of US\$200,000 per contract with at least three quotations, up to an aggregate amount of US\$480,000 of IDA funds. Packages of goods and equipment above US\$200,000 where international shopping would be applicable are not anticipated.

48. **Consulting Services and Training.** About US\$1.01 million would be allocated to consultant services and training under the Project. Consultants for technical assistance financed under the project would be selected in accordance with the "World Bank Guidelines for the Use of Consultants" (1981). Technical assistance would consist of specialized management, financial and technical support, involving consulting firms and individual experts, both local and foreign. About US\$0.5 million would be used for contracts with consulting firms. Any consultancy contract for over US\$100,000 would be based on a shortlist of qualified firms.

49. **Recurrent Costs.** Office supplies and materials will be procured through local shopping. Other administrative costs, including salaries, utilities, and travel costs, will be included in the ETFs annual budgets subject to IDA's approval.

50. **Bank Review.** IDA would require prior approval of the first 40 sub-project contracts (25 in the Federation and 15 in Republika Srpska) or until contracting is done satisfactorily to IDA. After this, ex-post review of a random selection of projects would be carried out on a regular basis. These approval procedures would be reviewed if the maximum sub-project limit is increased over US\$100,000. Prior Bank review would also be required for: (i) equipment contracts over US\$50,000, (ii) contracts for the employment of consultant firms above US\$100,000; and (iii) contracts for individual consultants above US\$50,000. For all consultant services and training contracts, IDA would review the terms of reference. Procurement will also

be subject to review by an independent procurement monitoring and auditing unit currently being set-up in Bosnia and Herzegovina.

Disbursements

51. The proposed IDA credit of US\$10 million would be disbursed over a maximum period of two years. Estimated IDA disbursements are shown in Table 4.

Table 4: Estimated IDA Disbursement Schedule

Bank FY	Jul. - Dec. 96	Jan - Jun. 97	Jul. - Dec. 97	Jan - Jun. 98
Semester	1.80	2.40	2.80	3.00
Cumulative	1.80	4.20	7.00	10.0
Cumulative as % of total	18%	42%	70%	100%

52. IDA disbursement categories are shown in Table 5 below. The closing date of the Project is February 15, 1999. Out of the proposed credit, up to a maximum amount of US\$1.0 million (10% of the credit) would be available for retroactive financing to reimburse eligible expenditures made after May 15, 1996 in respect of Categories A (the Federation component).

Table 5: Disbursement Categories

Items	Amount (US\$'000)	% Financing
1. Sub-projects for Civil Works	6,390	100%
A. Federation	4,973	
B. Republika Srpska	1,417	
2. Goods and equipment	450	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 85% of local expenditures for other items procured locally.
A. Federation	280	
B. Republika Srpska	170	
3. Training and study tours	140	100%
A. Federation	90	
B. Republika Srpska	50	
4. Consultant Services	870	100%
A. Federation	610	
B. Republika Srpska	260	
5. Recurrent costs	2,150	100%
A. Federation	1,380	
B. Republika Srpska	770	
Total	10,000	

53. **Special Account.** The State Ministry of Finance will establish Special Accounts in commercial banks, acceptable to IDA, for both the Federation and the Republika Srpska, with an authorized allocation of US\$1.5 million for the Federation and US\$1 million for Republika Srpska, representing about 4 months of project expenditures. During negotiations, it was agreed that the State Ministry of Finance would authorize individuals eligible to sign withdrawal applications to disburse funds from the Special Accounts to sub-projects. For the Federation Special Account, these would include the Executive Director of the Public Works Department of the FETF. To expedite local payments, a correspondent account would also be established in a local bank. Replenishment applications would be prepared by the FETF with reconciled bank statements and other appropriate documentation.

54. **Documentation of Expenditure.** Disbursements would be based on full documentation of expenditures for equipment contracts over US\$50,000 and for the first 40 sub-projects (25 in the Federation; 15 in the Republika Srpska) which are subject to prior approval. Disbursements for all other expenditures, including sub-project grants (civil works) below US\$100,000, consulting services below US\$100,000 for firms and US\$50,000 for individual consultants respectively, and recurrent costs would be made on the basis of Statement of Expenditures (SOEs) certified by the Executive Director of the Public Works Department. The required supporting documents would be retained by the ETF for at least one year after the receipt by the Bank of the audit report for the year in which the disbursement was made. This documentation would be made available for review by auditors and by visiting IDA staff upon request.

Accounts, Auditing and Reporting

55. The ETFs would be responsible for overall financial management of the project and would establish accounting systems acceptable to IDA, with technical assistance, as required. The ETFs would be subject to annual external audits by independent auditors, satisfactory to IDA. The external auditors will be responsible for auditing all project accounts, the Special Account and all disbursement requests made against SOEs. During negotiations, it was agreed that a project audit will be carried out for each fiscal year by independent auditors acceptable to IDA, to be employed by October 31, 1996. Each ETF shall send certified copies of the external audit report to IDA, including balance sheets, income statements, and the auditor's opinion on whether the ETF is achieving its objectives in a cost-effective way and whether internal controls are adequate to minimize the misuse of funds.

Supervision, Reporting and Monitoring

56. **Bank Supervision.** Due to the demand-driven nature of the project, and the large number of sub-projects to be reviewed, intensive supervision is required by IDA. This is in keeping with the experience of other similar operations. Supervision will be carried out regularly by the Task Manager who is based in the Resident Mission. Additional Bank staff and consultants will be brought in to supervise the project on a regular basis, as required.

57. **Reporting.** Each quarter the Foundation would submit progress reports to IDA, according to an agreed format, summarizing the sub-projects under different stages of review,

procurement or implementation. A final report and evaluation of the outcome of the proposed project would be prepared by each ETF no later than six months after the closing date.

58. **Monitoring.** Performance monitoring indicators were agreed during appraisal (see Appendix 6). These indicators reflect the objectives of employment creation, speed and efficiency of the ETFs operations, and the policies of the ETFs on priority sub-projects and targeting of resources. These indicators will be closely monitored during Bank supervision, with a focus on achieving employment creation targets, prudent financial management, rigorous use of the unit cost data base for sub-project appraisal, and the consistent application of the operational procedures.

E. BENEFITS AND RISKS

59. **Benefits.** The major benefits of the project are: (i) the creation of 100,000 man-months of employment, as well as the multiplier effects within the economy; (ii) reconstruction and rehabilitation of public infrastructure and services with the associated economic, social and psychological benefits; and (iii) reinforcement and strengthening of local government capacity to respond to local needs quickly.

60. **Risks.** There is a general risk of a resumption of hostilities in the region. The project should help offset this by providing increased employment opportunities to the unemployed people. Specific project risks include: (i) political interference in the Foundations' operations; and (ii) misallocation of financial resources. Preparation of the project has incorporated the lessons from similar operations so as to minimize these risks. In particular, the risks of political interference and financial misallocation will be mitigated by equipping the ETFs with the operational procedures that ensure autonomy and transparency of their operations, including rigorous eligibility criteria, adherence to strict unit cost ceilings for sub-projects, and external auditing, as well as intensive supervision.

F. AGREEMENTS REACHED

61. During negotiations, the following agreements were reached on the implementation of the Project:

- (i) the State of Bosnia and Herzegovina will on-lend the proceeds of the Credit to the Federation and Republika Srpska on identical terms to the IDA Credit. These funds will be made available to the FETF and RETF respectively on a non-reimbursable, grant basis;
- (ii) the Executive Director and other senior management positions would be staffed satisfactorily to IDA;
- (iii) the ETFs will each adopt an Operational Manual setting out the operational procedures in respect of sub-project screening, appraisal, approval and supervision,

and a Finance and Administration Manual setting out financial controls and administrative procedures;

- (iv) no change may be made to the types of sub-projects eligible for financing or the eligibility criteria without the prior approval of IDA;
- (v) the cost ceiling for an individual sub-project will be US\$100,000 for the first semester of the Project;
- (vi) the FETF shall establish a management information system by no later than October 31, 1996 and the RETF by no later than March 31, 1997 capable of generating detailed reports regarding project implementation and monitoring, including a unit cost database for sub-project appraisal and costing;
- (vii) selected performance indicators, agreed with IDA, will be used to monitor the ETF's performance;
- (viii) the ETFs will submit quarterly reports to IDA on project activities, in a format acceptable to IDA; and
- (ix) the ETFs will maintain accounting practices acceptable to IDA. A project audit for fiscal year 1996 will be completed by April 30, 1997, by independent auditors acceptable to IDA.

62. The following are *conditions of effectiveness* were agreed during negotiations:

- (i) establishment of the FETF, acceptable to IDA;
- (ii) execution of the FETF Subsidiary On-lending and Project Implementation Agreement between the State, the Federation and the FETF; and
- (iii) determination of the initial cantonal allocations of the proceeds of the Credit for the Federation, satisfactory to IDA.

63. It was further agreed that the following would be *conditions of disbursement* of the Republika Srpska component, which are expected to be fulfilled no later than December 31, 1996:

- (a) the legal establishment of the RETF;
- (b) the appointment of the RETF board of trustees; and
- (c) the execution of the RETF Subsidiary Financing and Project Implementation Agreement.

ELIGIBILITY PRINCIPLES AND SUBPROJECT MENU

Eligible Applicants

Only municipalities are eligible to apply to the Public Works Department of the Employment and Training Foundations (ETFs) for financing of public works sub-projects. Community councils, civil associations and non-governmental organizations may also apply to the Public Works Department, however, such applications must be approved by and channelled through the municipality.

Eligibility Guidelines

Applicants are responsible for carrying out the technical design of the sub-project at their own cost, as a minimum contribution to the operation. Design and specifications must be consistent with the existing norms and standards of the relevant ministries, if applicable. To the extent possible, sub-projects should rely on locally produced materials.

An individual sub-project must cost less than or equal to US\$100,000.

Works must be simple in scope and take six months or less to complete.

The cost of labor must represent at least 50 percent of the total cost of the sub-project (labor intensity percentages by priority ranking will be defined in the Operational Manual).

Sub-projects cost must be within the cost per beneficiary limits established in the Operational Manual.

Eligible Sub-projects

- *Employment* - priority will be given to projects with a high labor content.
- *Economic impact* - priority will be given to infrastructure works having a direct impact on the local economy.
- *Social & environmental impact* - priority will be given to works having a positive impact on the environment, public health or other social issues.

The initial eligible sub-project menu is presented below. Sub-projects are ranked from 0 (no impact) to 3 (high impact) for each criteria. An overall rank (from 0 to 3) is calculated based on coefficients which favor employment (coefficient of 70 percent) over the other criteria (coefficient of 15 percent each).

DETAILED COST TABLES

2.1 FEDERATION OF BOSNIA & HERZEGOVINA

FEDERATION OF BOSNIA HERZEGOVINA
PUBLIC WORKS & EMPLOYMENT PROJECT
Detailed Cost (US\$ '000)

COMPONENT		Quantities					Unit Base Cost				Total Base Cost					%
	Unit	96-2	97-1	97-2	98-1	TOTAL	96-2	97-1	97-2	98-1	96-2	97-1	97-2	98-1	TOTAL	
PUBLIC WORKS																
Manmonths of employment	Unit	1175	19500	23500	23500	78250										
Sub projects	Unit	47	78	94	94	313	71	78	86	94	3,337	6,084	8,084	8,836	26,341	87.8
Contingencies	5%										163	306	406	424	1,299	4.3
TOTAL PUBLIC WORK											3,500	6,390	8,490	9,260	27,640	92.1
INSTITUTIONAL SUPPORT																
Salaries																
Executive Director	Months	6	6	6	6	24	2.4	2.5	2.6	2.8	14	15	16	17	62	
Division Directors	Months	18	18	18	18	72	2.0	2.1	2.2	2.3	36	38	40	42	156	
Engineers/ Account.	Months	54	84	102	102	342	1.5	1.6	1.7	1.7	81	132	169	177	559	
Secretaries	Months	24	24	24	24	96	1.	1.2	1.2	1.3	26	28	29	31	114	
Messenger	Months	6	6	6	6	24	0.7	0.7	0.8	0.8	4	4	5	5	18	
Sub Total		108	138	156	156	558					161	217	259	272	909	3.0%
Technical Assistance																
Long Term (foreign)	Months	12	6			18	16.0	16.2	16.3	16.5	192	97	-	-	289	
Short Term (foreign)	Months	3	3		1	7	20.0	20.2	20.4	20.6	60	61	-	21	142	
Short term (local)	Months	5	5	3	2	15	10.0	10.	10.2	10.3	50	51	31	21	153	
Sub Total		20	14	3	3	40					302	209	31	42	584	1.9%
Training																
Sub Total	Unit	13	5	3	0	21	4.0	4.0	4.1	4.1	52	20	12	-	84	0.3%
Vehicles & Equipment																
Vehicle	Unit	4	2	1		7	20.0	20.2	20.4	20.6	80	40	20	-	140	
Computer	Unit	9	2	2		13	4.0	4.0	4.1	4.1	36	8	8	-	52	
Furniture & office equip.	Lump	2	1	1		4	10.0	10.	10.2	10.3	20	10	10	-	40	
Office rehabilitation	Lump	1				1	35.0				35	-	-	-	35	
Sub Total											171	58	38	-	267	0.9%
Operating expenses																
Vehicle	Month	24	36	42	42	144	1.2	1.2	1.2	1.2	29	44	51	52	176	
Car Rental	Month	6	4	4	4	18	2.0	2.0	2.0	2.1	12	8	8	8	36	
Stationnary, Telecom.	Month	1	1	1	1	4	2.0	2.0	2.0	2.1	2	2	2	2	8	
Office space	Month	6	6	6	6	24	1.5	1.6	1.7	1.7	9	9	10	10	38	
Per Diem	Month	24	34	40	40	138	1.0	1.	1.	1.2	24	36	44	46	150	
Sub Total											76	99	115	118	408	1.4%
BASE COST INST. SUPPORT											762	603	455	432	2,252	7.5
Contingencies	5%										38	27	25	18	108	0.4
TOTAL INST. SUPPORT											800	630	480	450	2,360	7.9
TOTAL PROJECT (Base Cost)											4,099	6,687	8,539	9,268	28,593	95.3
Contingencies	5%										201	333	431	442	1,407	4.7
TOTAL PROJECT											4,300	7,020	8,970	9,710	30,000	100

FEDERATION OF BOSNIA HERZEGOVINA
PUBLIC WORKS & EMPLOYMENT PROJECT
Summary of Project Cost per Category of Expenditure

Category of expenditure	PUBLIC WORKS	INSTIT. SUPPORT	TOTAL US\$ '000	%
INVESTMENTS				
Public Works	27,640		27,640	92.1%
Training		90	90	0.3%
Technical Assistance		610	610	2.0%
Vehicles & Equipment		280	280	0.9%
TOTAL INVESTMENTS	27,640	980	28,620	95.4%
RECURRENT COSTS				
Salaries		950	950	3.2%
Operating expenses		430	430	1.4%
TOTAL RECURRENT COSTS	-	1,380	1,380	4.6%
TOTAL PROJECT	27,640	2,360	30,000	100%
of which Foreign Exch.	5,550	930	6,480	22%

2.2 REPUBLIKA SRPSKA

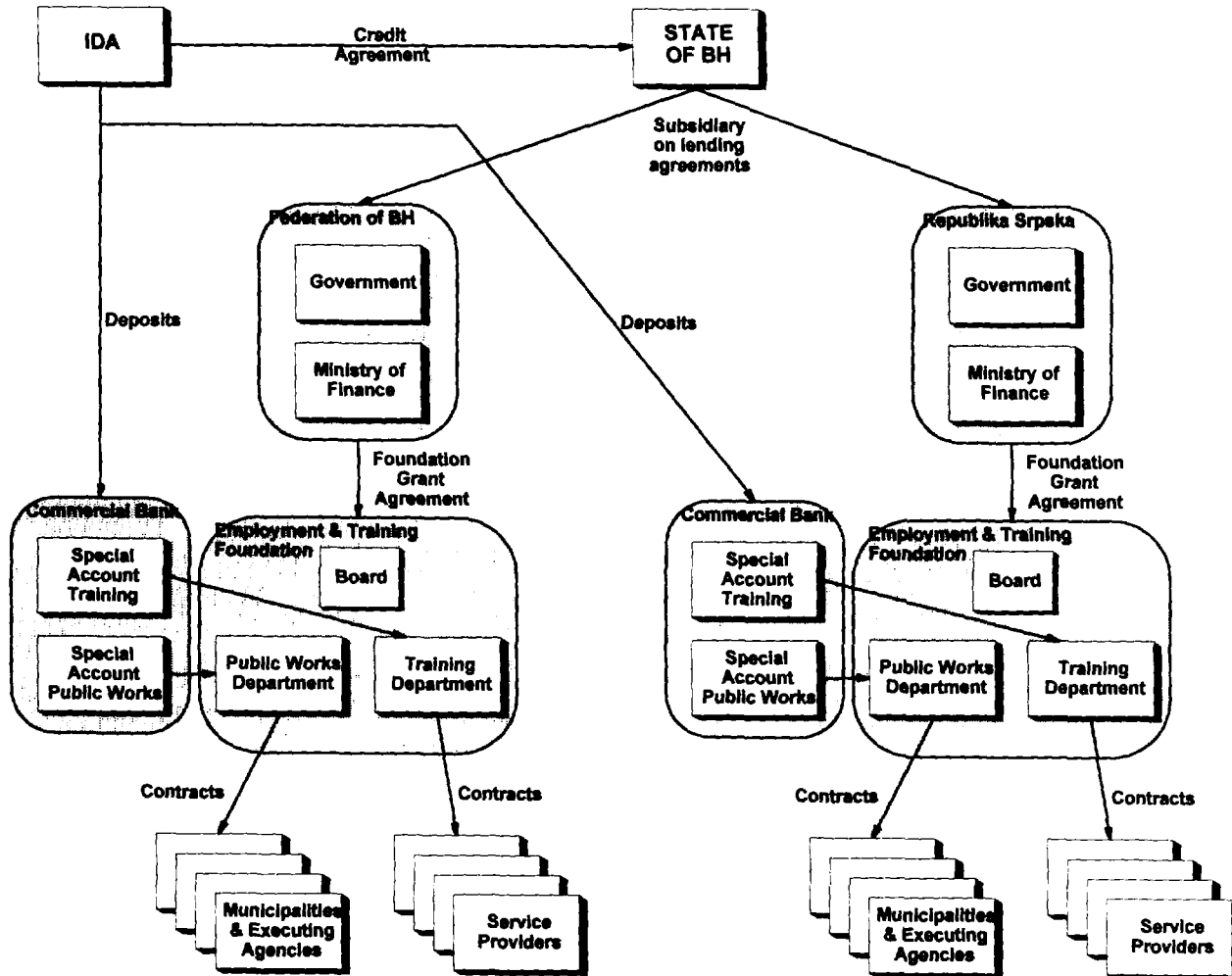
REPUBLIKA SRPSKA
PUBLIC WORKS & EMPLOYMENT PROJECT
Detailed Cost (US\$ '000)

COMPONENT		Quantities					Unit Base Cost				Total Base Cost					%
	Unit	96-2	97-1	97-2	98-1	TOTAL	96-2	97-1	97-2	98-1	96-2	97-1	97-2	98-1	TOTAL	
PUBLIC WORKS		4000	6600	7800	7600	26000										
Manmonths of employment	Unit															
Sub projects	Unit	20	33	39	38	130	85	94	103	113	1,700	3,102	4,017	4,294	13,113	87.4
Contingencies	5%										90	158	203	186	637	4.2
TOTAL PUBLIC WORK											1,790	3,260	4,220	4,480	13,750	91.7
INSTITUTIONAL SUPPORT																
Salaries																
Executive Director	Months	6	6	6	6	24	2.3	2.4	2.5	2.7	14	14	15	16	59	
Division Directors	Months	12	12	12	12	48	1.7	1.8	1.9	2.0	20	21	22	24	87	
Engineers/ Account.	Months	30	48	54	54	186	1.3	1.4	1.4	1.5	39	66	77	81	263	
Secretaries	Months	18	18	18	18	72	0.8	0.8	0.9	0.9	14	15	16	17	62	
Messenger	Months	6	6	6	6	24	0.5	0.5	0.6	0.6	3	3	3	3	12	
Sub Total		72	90	96	96	354					90	119	133	141	483	3.2%
Technical Assistance																
Long Term (foreign)	Months	6				6	16.0	16.2	16.3	16.5	96	-	-	-	96	
Short Term (foreign)	Months	1	1		1	3	20.0	20.2	20.4	20.6	20	20	-	21	61	
Short term (local)	Months	3	2	2	2	9	10.0	10.	10.2	10.3	30	20	20	21	91	
Sub Total		10	3	2	3	18					146	40	20	42	248	1.7%
Training																
Sub Total	Unit	8	3	1	0	12	4.0	4.0	4.1	4.1	32	12	4	-	48	0.3%
Vehicles & Equipment																
Vehicule	Unit	3	1			4	20.0	20.2	20.4	20.6	60	20	-	-	80	
Computer	Unit	6	1	1		8	4.0	4.0	4.1	4.1	24	4	4	-	32	
Furniture & office equip.	Lump	2	1			3	10.0	10.	10.2	10.3	20	10	-	-	30	
Office rehabilitation	Lump	1				1	20.0				20	-	-	-	20	
Sub Total											124	34	4	-	162	1.1%
Operating expenses																
Vehicule	Month	18	24	24	24	90	1.2	1.2	1.2	1.2	22	29	29	30	110	
Car Rental	Month	2	2	4	4	12	2.0	2.0	2.0	2.1	4	4	8	8	24	
Stationary, Telecom.	Month	1	1	1	1	4	2.0	2.0	2.0	2.1	2	2	2	2	8	
Office space	Month	6	6	6	6	24	1.0	1.	1.	1.2	6	6	7	7	26	
Per Diem	Month	14	20	22	22	78	1.0	1.	1.	1.2	14	21	24	25	84	
Sub Total											48	62	70	72	252	1.7%
BASE COST INST. SUPPORT											440	267	231	255	1,193	8.0
Contingencies	5%										20	13	9	15	57	0.4
TOTAL INST. SUPPORT											460	280	240	270	1,250	8.3
TOTAL PROJECT (Base Cost)											2,140	3,369	4,248	4,549	14,306	95.4
Contingencies	5%										110	171	212	201	694	4.6
TOTAL PROJECT											2,250	3,540	4,460	4,750	15,000	100

REPUBLIKA SRPSKA
PUBLIC WORKS & EMPLOYMENT PROJECT
Summary of Project Cost per Category of Expenditure

Category of expenditure	PUBLIC WORKS	INSTIT. SUPPORT	TOTAL US\$ '000	%
INVESTMENTS				
Public Works	13,750		13,750	91.7%
Training		50	50	0.3%
Technical Assistance		260	260	1.7%
Vehicles & Equipment		170	170	1.1%
TOTAL INVESTMENTS	13,750	480	14,230	94.9%
RECURRENT COSTS				0.0%
Salaries		510	510	3.4%
Operating expenses		260	260	1.7%
TOTAL RECURRENT COSTS	-	770	770	5.1%
TOTAL PROJECT	13,750	1,250	15,000	100%
of which Foreign Exch.	2,760	490	3,250	22%

OVERALL INSTITUTIONAL ARRANGEMENTS



CHARTER

THE EMPLOYMENT and TRAINING FOUNDATION

[FEDERATION OF BOSNIA-HERZEGOVINA] [REPUBLIKA SRPSKA]

Considering the large levels of unemployment expected during demobilization and reconstruction, and the difficulties of creating and finding new employment in the changing market structure;

Considering the need to develop new skills among the labor force to improve their chances for employment, and to create new job opportunities for the unemployed;

Considering the widespread devastation to municipal public assets and infrastructure, and the need to provide for urgent clean up, rehabilitation and reconstruction of such infrastructure;

The Government of the [Federation of Bosnia and Herzegovina or Republika Srpska] decides to create the Employment and Training Foundation (ETF).

CHAPTER 1 - General

Article 1. The Employment and Training Foundation (ETF), hereinafter referred to as “the Foundation”, is hereby established as a juridical person with administrative, technical and financial autonomy.

The Foundation shall perform its activities pursuant to this charter and its implementing Regulations.

The domicile of the Foundation will be the city of Sarajevo [or Pale] and it may open offices in other cities within the country.

Article 2. The Foundation's objective shall be enhancing employment opportunities for the unemployed through the financing of various activities as defined in its Regulations and in Article 11 of this Charter.

CHAPTER 2 - Foundation Activities

Article 3. The Foundation's objectives shall be accomplished as follows:

The Foundation will promote and finance, through grants to public or non-government, non-profit or private sector entities, the following activities: (a) counseling and job finding, (b) retraining, (c) public works, and (d) public service employment projects. The grants will be subject to requirements on content, duration, technical standards and other aspects as set forth in contracts with executing agencies and in Foundation Regulations and as may be agreed with financing sources.

The Foundation may finance other activities than those described above by decision of its Board of Trustees, provided that these projects will serve to achieve the objectives of the Foundation set forth in Article 2 and are subject to the conditions stated in the Regulations.

Other Foundation activities include information, staff training, transfer of technology and advisory work related to the main activities of the Foundation.

Article 4. Project proposals will be initiated by public or nongovernment or private sector entities and submitted to the Foundation.

The Foundation will evaluate these project proposals and, if it endorses them, finance them according to its Regulations. Project execution is the responsibility of the executing agency, not the Foundation. The Foundation will, however, exercise technical and financial supervision to ensure projects are implemented as agreed.

CHAPTER 3 - Revenues and Resources of the Foundation

Article 5. The Foundation's financial revenues comprise:

- resources assigned by multilateral or bilateral aid programs;
- grants provided by the State of Bosnia and Herzegovina;
- grants provided by the [Federation of Bosnia Herzegovina or Republika Srpska];
- domestic and foreign donations; and
- other revenues and income that may arise.

Article 6. The resources of the Foundation shall be deposited in independent commercial bank accounts.

Article 7. The [Federation of Bosnia and Herzegovina or Republika Srpska] will provide to the Foundation such budget resources as are required in accordance with international financial agreements to which the Government is a party.

The Foundation will submit to the Government its annual budget requirements consistent with international agreements and the laws of the [Federation of Bosnia and Herzegovina or Republika Srpska].

CHAPTER 4 -Foundation's Organizational Structure

Article 8. The governing bodies of the Foundation are:

- the Board of Trustees
- the Executive Committees (one for each Department as described in Article 11)

Article 9. The Board of Trustees, hereafter referred to as "the Board", shall be composed of two appointed representatives from the following organizations:

Federation	Republika Srpska
Ministry of Finance	Ministry of Finance
Ministry of Defense	Ministry of Defense
Ministry of Physical Planning & Env't	Ministry of Urbanism, Planning & Civil Works
Ministry of Refugees and Welfare	Min. of Health, Labor & Welfare
Ministry of Education	Min. of Education, Science and Culture
Employment Institute	Institute for Employment
Chamber of Commerce	Chamber of Commerce
Federation of Independent Unions	Unions

The Minister (or Chief Executive Officer) of each organization shall propose two representatives to the Board which shall be appointed by the Government of [the Federation or Republika Srpska].

Board members shall receive no remuneration of their services except for direct costs of travel and per diem associated with attendance at Foundation meetings.

Article 10. The Board shall be chaired by the [Federation or RS] Minister of Finance or his designated alternate.

Article 11. The Board shall approve the creation and disbanding of operational Departments to carry out discrete employment related activities. Initially there will be two Departments, one to fulfill the objectives of the Demobilization and Reintegration Project supported by the International Development Association (IDA) and other donors, and the second to fulfill the objectives of the Public Works and Employment Project supported by IDA and other donors. The two Departments will be governed by the provisions of this Charter and their separate implementing Regulations approved by the Board.

The objectives of the Demobilization and Reintegration Department will be to enhance employment opportunities through the financing of labor redeployment activities including but not limited to: counseling and job placement services, retraining, and other labor redeployment

measures that the Department and the Foundation may deem useful. The target population of the Foundation's grant activities initially will be demobilized soldiers, war victims, disabled, war widows, refugees as well as the general unemployed.

The objectives of the Public Works and Employment Department will be to create employment rapidly for those displaced or unemployed as a result of the war; and to accomplish that objective through the financing of small scale clean up, rehabilitation and reconstruction projects at the local level. Such projects shall be labor intensive and executed by local contractors.

Article 12. The Board shall have the following duties:

- approve the Regulations of the Foundation;
- approve the policies and guidelines regulating the Foundation's activities;
- approve or disapprove project financing proposals for amounts as defined in the implementing Regulations of each Department.
- approve the Foundation's annual budget;
- approve the annual financial and operational reports;
- authorize negotiations and enter into agreements with the [Federation, RS] and financial institutions necessary to achieve its purposes;
- hold ordinary meetings every three months and extraordinary meetings as often as necessary on the initiative of the Chairman;
- appoint the Executive Directors and the Board members serving on the Executive Committees; and
- all other duties assigned under the corresponding regulations

Article 13. Meetings will be held with the attendance of representatives of at least five (5) organizations and decisions taken by a simple majority of votes. Each organization shall have one vote. The Board may invite the representatives of other public, non-government, and private agencies to its meetings, who should have voice but no vote.

Article 14. The Executive Committees shall be formed by:

- the Executive Director of the relevant Department;
 - the Financial Director of the Department; and
- two members of the Board appointed by the Chairman on a rotating basis.

The Executive Directors shall serve as the Chairmen of the Executive Committees. A quorum of the Executive Committees shall consist of three of its four members. In the event of a tied vote, the Chairman will cast the deciding vote.

Article 15. The Executive Directors shall be named and removed by a majority vote of the Board, and shall meet the professional requirements related to their function.

Article 16. The Executive Directors shall be the highest executive authority of the Foundation and shall have the following duties:

- represent the Department and the Foundation in legal matters;
- direct the operations of the Department and implement the Board's decisions;
- manage the resources of the Departments;
- select and appoint the staff;
- prepare and present projects for approval of the Executive Committees and the Board;
- sign the pertinent contracts for professional and technical services;
- prepare and propose to the Board the implementing Regulations of this Charter for the Departments and all others that may be necessary;
- request the Board's authorization to contract external auditors;
- all other duties assigned by this Charter and its Regulations.

Article 17. The Executive Committees shall have among their duties the approval or disapproval of project financing proposals up to amounts specified in the Departments' implementing Regulations.

Article 18. The professional, technical and administrative staff shall be selected by the Executive Directors, based on their personal, professional and technical capabilities; and approved by the Board.

Article 19. The work relations of the staff shall be regulated by the clauses of the signed professional and technical contracts, which shall be subject to the laws of the [State , Federation, Republika Srpska].

Article 20. Staff and operating expenses shall be financed with the Foundation's resources. The salaries and other remuneration of Departmental staff members will be fixed by the Board of Trustees and shall not be subject to civil service regulations of [State, Federation, Republika Srpska].

CHAPTER 5 - Auditing

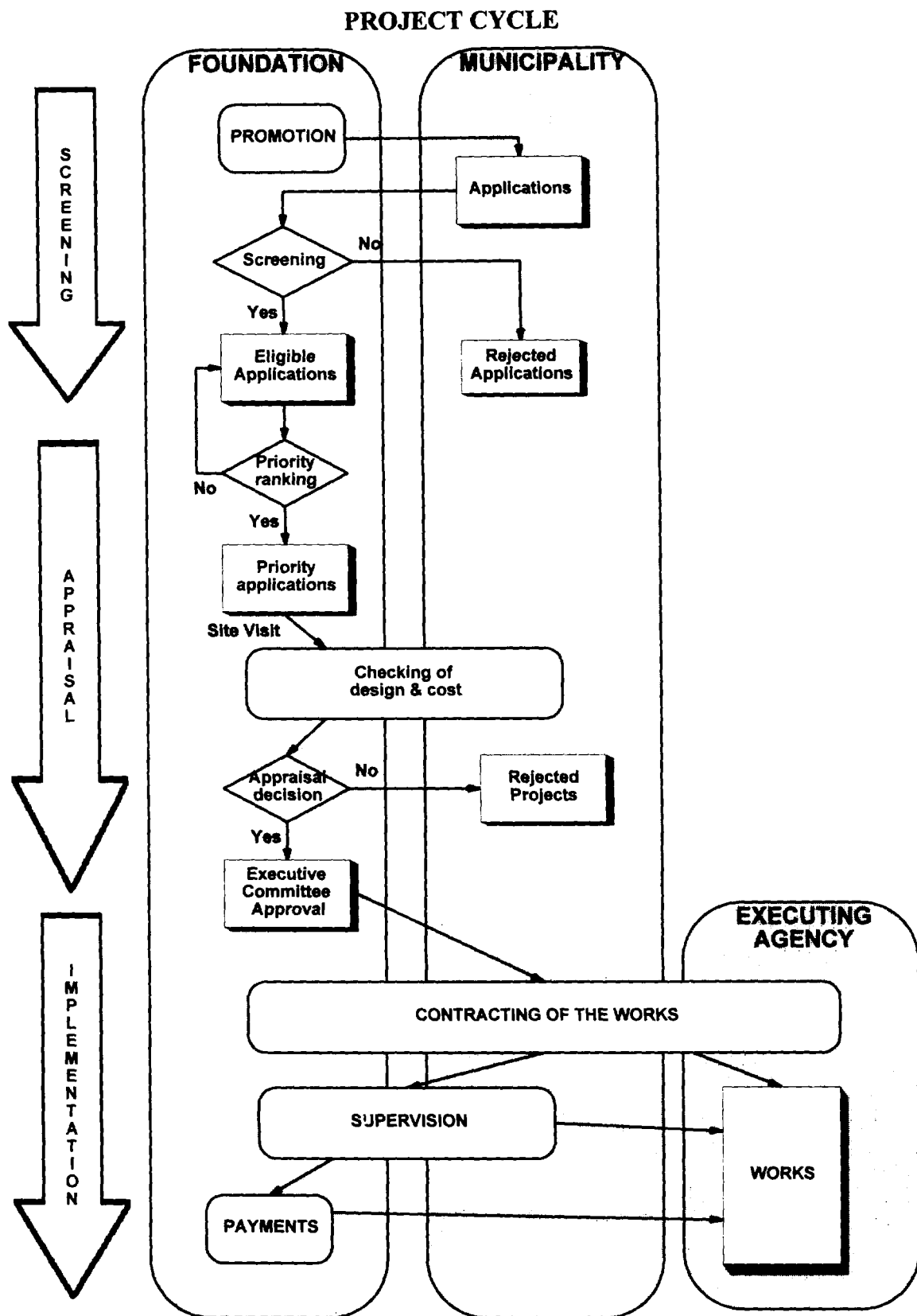
Article 21. The Foundation shall be subject to external auditing by independent international auditors. Reports from the External Auditors shall be reviewed by the Board, and made available to donors as required, for the corresponding action.

CHAPTER 6 - Final and Temporary Provisions

Article 22. The Foundation shall be exempt from any type of taxes, fees and charges, or from any other national or local revenue contributions, present or to be established in the future.

Article 23. The Board of Trustees may decide to dissolve the Foundation and submit this decision to the (Federation or Republika Srpska) Ministry of Finance for approval. For this purpose only the meeting will be held with the presence of all the members of the Board of Trustees and the decision shall be taken by a two-thirds majority of votes. If the Foundation is to be dissolved, the (Federation or Republika Srpska) Minister of Finance should constitute a Committee to liquidate it, which shall have the following duties:

- transfer all the financial resources and all other assets from the Foundation to the corresponding governmental bodies; and
- submit the report of its activities to the (Federation or Republika Srpska) Minister of Finance and to the agencies he deems convenient.



PERFORMANCE MONITORING INDICATORS

Performance Monitoring Indicators

COMPLETED PROJECTS	From the Last beginning Month
1 Number of works 2 Nb of works per type 2.1 Works type A 2.2 Works type B 2.3 Works type C 2.4 Works type D 3 Total cost 4 Total value of non-labor costs 5 Labor Cost 6 Percentage of Labor Cost 7 Number of Manmonths 8 Of which new workers	
TARGETING	From the Last beginning Month
9 Nb Project per Canton 9.1 Canton 1 9.2 Canton 2 9.3 Canton 3 10 Committed funds per Canton 10.1 Canton 1 10.2 Canton 2 10.3 Canton 3	
PROCESSING	From the Last beginning Month
11 Nb of Applications 12 Total eligible Applications 13 Nb of Projects appraised 14 Nb of Contracts 15 Elapsed time screening to Contract 16 Elapsed time Appraisal to Contract 17 Elapsed time for implementation	

IMPLEMENTATION SCHEDULE

Target date	Action	Implementing Agency
June 27	Appoint FETF Board of Trustees and Project Director	Fed'n Gov't
July 5	Draft Operational Manual and application guidelines	FETF/IDA
July 10	Send application guidelines to municipalities	FETF
July 12	Recruit core staff	FETF
July 20	Train staff in operational procedures	FETF/IDA
July 25	Draft Finance and Administrative Manual	FETF/IDA
July 30	Set-up MIS system	FETF/IDA
July 30	Set-up accounting system/financial controls	FETF/IDA
July 30	Presentation to WB Board of Directors	IDA
August 1	Commence sub-project appraisals	FETF
August 6	Sign DCA, Subsidiary Finance and Project Implementation Agr't and legal opinions	BH/Fe/FETF
August 15	Project effectiveness	IDA
August 15	Initial sub-projects to FETF's Executive Committee	FETF
August 22	First sub-project contracts signed	FETF
August 30	Disbursements begin	FETF
Oct 15	Supervision mission	IDA
Oct 30	Recruit external auditor	BH/FETF
Nov 15	Submit first quarterly report	FETF
Dec 31	RS signs Subsidiary Finance and Project Implementation Agr't	BH/RS/RETF
Feb 15	Submit second quarterly report	FETF

BOSNIA AND HERZEGOVINA
PUBLIC WORKS AND EMPLOYMENT PROJECT
SELECTED DOCUMENTS IN PROJECT FILE

Berard P. Consultant's Report: "Projet de Travaux Publics, Identification", February, 1996.

Berard P. Consultant's Report: "Projet de Travaux Publics (Creation d'Emplois), Identification (deuxieme mission)", Mars-Avril, 1996.

Suchanek G.L. Information Paper prepared for the World Bank: "Economic Impact of Demobilization", April 1996 (draft).

World Bank, "Bosnia and Herzegovina: The Priority Reconstruction and Recovery Program: The Challenges Ahead", Discussion Paper No. 2, prepared for the Second Donors' Conference in Brussels, April 2, 1996.

World Bank, "Demobilization and Reintegration Project", draft MOP and Technical Annex, April 26, 1996.



IMAGING

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