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FEDERATION OF BOSNIA AND HERZEGOVINA
Federal Ministry of Agriculture, Water
Management and Forestry



PROJECT PROCEDURES MANUAL

**Project Water and Sanitation in the Federation of
Bosnia and Herzegovina**

**BOSNIA AND HERZEGOVINA
FEDERATION OF BOSNIA AND HERZEGOVINA**

FEDERAL MINISTRY OF AGRICULTURE, WATER MANAGEMENT AND FORESTRY

PROJECT MANAGEMENT UNIT - PMU

PROJECT PROCEDURES MANUAL

for Project

WATER AND SANITATION IN THE FEDERATION OF BOSNIA AND HERZEGOVINA

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Abbreviations

BiH	Bosnia and Herzegovina
EC	European Community
EIA	Environmental Impact Assessment
EIB	European Investment Bank
EU	European Union
DEU	Delegation of European Union to BiH
FBiH	Federation of Bosnia and Herzegovina
FMF	Federal Ministry of Finance
FMAWMF	Federal Ministry of Agriculture, Water Management and Forestry
FPM	Financial Procedures Manual
IPA	Instrument for Pre-Accession
IPF	Infrastructure Projects Facility
MFT	Ministry of Finance and Treasury – Bosnia and Herzegovina
NIPAC	National IPA Coordinator
OJEU	Official Journal of the European Union
OLP	On-Lending Policy
PF	Project Fiche
PIP	Project Implementation Plan
PIT	Project Implementation Team

PMU	Project Management Unit
PN	Procurement Notice
PPF	Project Preparation Facility
PPG	Procurement Procedures Guide
PPM	Project Procedures Manual
PSC	Project Steering Committee
PU	Public Utility
QAR	Quality Assurance Report
SIDA	Swedish International Development Cooperation Agency
TA	Technical Assistance
TD	Tender Documents
ToR	Terms of Reference
WA	Water Agency
WATSAN	Project Water and Sanitation in the Federation of Bosnia and Herzegovina

1 Introduction

Project name	Water and Sanitation in the Federation of Bosnia and Herzegovina
Project code	WATSAN FBiH
Project reference	Fl no. 24.569 {3A} SERAPIS no. 2006-0272

1.1 Purpose and scope of the Project

Project objective The overall objective of the Project is to develop an EU-standard Integrated Sustainable Water and Wastewater Management scheme in Federation of Bosnia and Herzegovina (hereinafter also: Federation of BiH, FBiH). The Project concerns priority investment schemes for water and sanitation within the territory of the FBiH, the purpose of which is to improve public health and the environment, with a particular focus on reducing water borne pollution through the collection and treatment of wastewaters that are presently discharged to the environment without treatment.

The operation will contribute to meeting Bosnia and Herzegovina's needs in relation to future compliance with the EU Environmental Legislation, in particular the EU Urban Waste Water Treatment Directive (91/271/EC) and Drinking Water Directive (98/83/EC).

Scope of the Project The purpose of the Project is to use the resources (EIB loan, grants and own funds of the municipalities) to ensure the implementation of measures contributing to the improvement of infrastructure and provision of services aimed at adequate (both in terms of quality and quantity) water supply and wastewater treatment in the municipalities included in the project. The priority investment schemes will be implemented in the following municipalities:

- 1 Bosanska Krupa
- 2 Bosanski Petrovac
- 3 Široki Brijeg
- 4 Tomislavgrad
- 5 Velika Kladuša
- 6 Orašje

- 7 Doboj Jug
- 8 Usora
- 9 Mostar
- 10 Prozor-Rama
- 11 Tešanj
- 12 Jajce
- 13 Glamoč
- 14 Gračanica
- 15 Kupres
- 16 Čitluk
- 17 Konjic
- 18 Bosansko Grahovo
- 19 Stolac
- 20 Lukavac

Other municipalities may be added to the Project if proven to the Bank that such schemes are closely connected to the schemes already included or will significantly impact public health and the environment as determined through an overall analysis and assessment of impact of such schemes on the water sector.

Project implementation period

According to the Finance Contract, all schemes should have been/shall be implemented within the period between 2006 and 2014, including some ongoing schemes, while some stages like wastewater treatment plant may be executed in phases (primary, secondary, tertiary treatment etc.).

1.2 Expected results of the Project

Apart from the construction of needed facilities and reconstruction of existing water supply and sanitation systems, including wastewater treatment plants (currently 2% of urban population is covered by wastewater treatment scheme), the project is also expected to produce the following results:

- improved services provided to population by public utilities in the field of water supply and sanitation in municipalities (better billing conditions resulting in increase of the collection rate),

- increased public awareness about the work of public utilities,
- uninterrupted water supply,
- reduced losses in water supply system to an economically optimal level,
- established conditions leading to operational efficiency and financial sustainability of public utilities and water supply and sanitation services,
- established conditions resulting in the increased autonomy of public utilities.

Considering the fact that local construction and procurement procedures will also be applied, the project is expected to contribute to economy in the Federation of BiH, more specifically to local economy.

1.3 Background to the Project

The Federation of BiH suffers from public health and environmental impacts from poorly developed water and wastewater infrastructure. Currently, 60% of the population has access to public water supply and 33% to the public sanitation system and only 1.9% of the population is connected to wastewater treatment plants. The need for the improvement in this area being apparent with the above statistics, the project was initiated to respond to needs of the municipalities in the FBiH for improvement of water supply, public health and reduction of water pollution through collection and treatment of wastewater that are presently discharged directly into environment without any treatment.

Discussions and preparations for cooperation with the European Investment Bank (EIB) started in mid-2006 between the EIB representatives and representatives of the Federal Ministry of Finance (FMF), while the Federal Ministry of Agriculture, Water Management and Forestry (FMAWMF) got actively involved in May 2007 when the EIB's financial experts carried out an assessment in BiH and submitted their financial proposal to the Bank's Management Board for approval. The Ministry of Finance and Treasury of BiH (MFT) was informed that a loan in the amount of EUR 60 million was proposed, i.e. that the EIB proposed to finance the project with the total investment costs of EUR 121.3 million. Apart from construction investments and procurement of equipment and technologies, this amount is expected to include the financing of the overall project documentation, implementation of efficiency measures, project management, technical contingencies, price contingencies and interest during construction.

The Finance Contract was initialed in March 2008 by the EIB representatives and BiH representatives (MFT, FMF and FMAWMF). The contract was signed in two steps: by the Borrower and Entity (Ministers of MFT, FMF and FMAWMF) in Sarajevo on 15 July 2008 and the EIB representatives in Luxembourg on 18 August 2008.

1.4 Purpose and scope of the Project Procedures Manual

The purpose of the Project Procedures Manual (PPM) is to present, in a single document, the procedures to be applied by all parties involved in the Project in order to ensure the quality of the services to be rendered and to define the responsibility and authority of all key actors within the project organization to enhance smooth cooperation. This manual mainly aims to provide overall technical procedures and quality guidance to the Project Management Unit (PMU) / Project Implementation Teams (PITs) in matters pertaining to project. The manual also includes an administrative system with filing and documentation procedures and the financial reporting procedures, while other issues related to financial Project component will be presented in a separate Financial Procedures Manual (FPM). The manual should be distributed to all the actors involved in the project, including but not limited to the funding agencies, EIB, the ministries on the State and Federation level and the municipalities. The PMU is responsible that each party involved in the project has received the manual for implementation.

1.5 Revision of the Project Procedures Manual

The PPM is a dynamic document, which will be revised at regular intervals in order to match changes in the project or its environment. Revisions of the manual may be initiated by anyone in the PMU. Such proposed revisions shall be submitted to the Head of PMU for evaluation and approval. The overall responsibility for the follow-up of the revisions and distribution of the revisions to all parties involved is with the Administrator in the PMU, after the approval of Head of PMU. Changes shall be indicated by a line in the margin, and the parts in which changes have been made shall be marked with date of issue. The PPM holders shall be notified about the changes, and they shall be responsible for implementing the revisions in their work. Annex 1 of this Manual contains a record of valid issue numbers of the different parts of the manual. The manual being an integral part of the project implementation should be supplemented with the detailed information from other documents governing the project, defined in Annex 2.

1.6 Glossary

For the ease of understanding, the following words are used through the whole manual:

Project	refers to the WATSAN FBiH.
Project scheme	refers to the project package or the investment package defined in each municipal PF.
Sub-project	Sub-projects are the projects in the project scheme of the individual municipality.
Finance Contract	The lending agreement between EIB and BiH.
Contract	Finance Contract
Manual	Project Procedures Manual

2 Organization and responsibilities

2.1 The Agreements and the Contracts

The Project includes a number of contracts, sub-contracts and other agreements and decisions related to the implementation of project. The whole list of documents which are considered integral parts of the project and this manual is given in Annex 2 of this document.

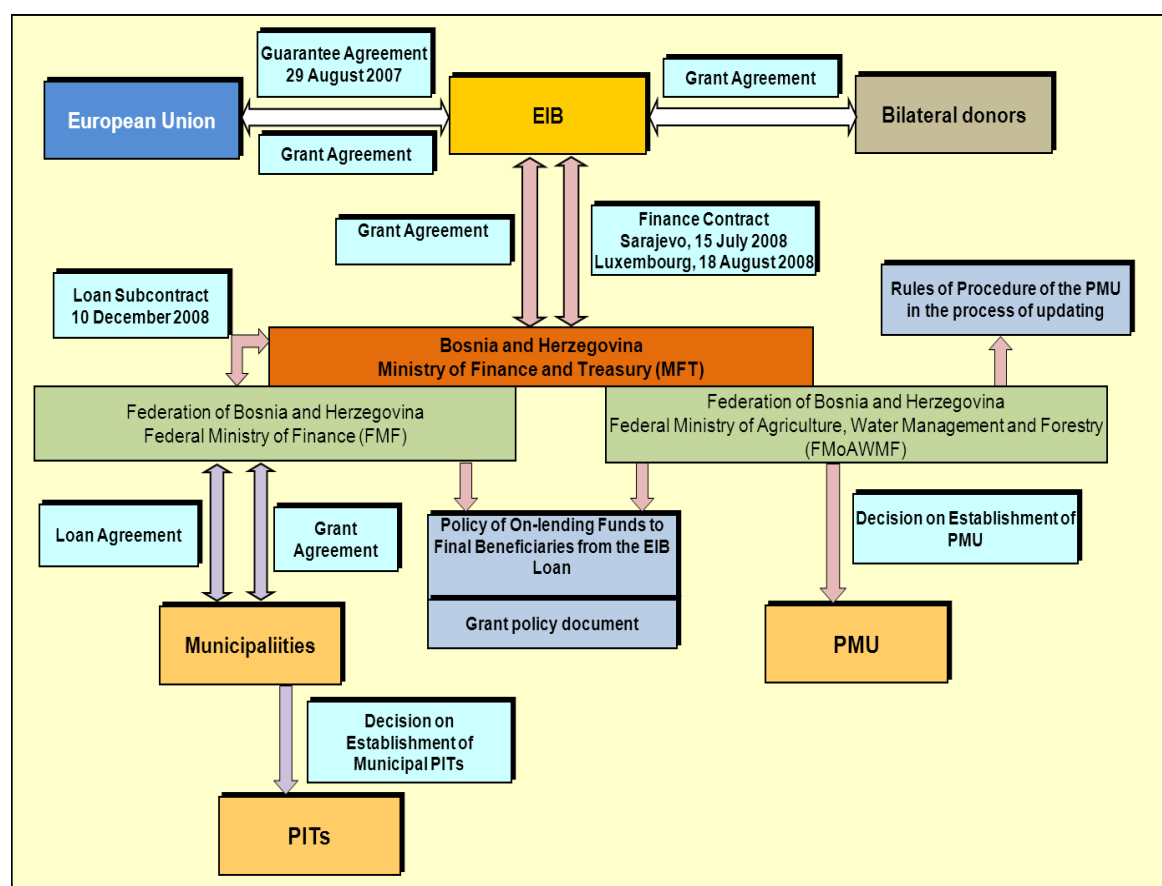


Figure 1 Agreements governing the Project

Framework Agreement In addition to these agreements, it is important to mention that there is a Framework Agreement between Bosnia and Herzegovina and EIB concluded on 9 November 2000, which is governing the Bank's activities in the territory of Bosnia and Herzegovina. The financing of this Project falls within the scope of this Framework Agreement.

Agreements In Figure 1, the agreements are shown in three different lines. The agreements on the white line are the agreements concerning the funding agencies and controlled by and under the responsibility of EIB. The agreements on the pink lines are the ones which are effective on the government level, State or Federation. They are mainly controlled and implemented by the PMU. The purple lines show the implementations on the municipal level and PITs are the main responsible actors and the implementers.

2.1.1 Funding Agreements

Guarantee Agreement The agreement entered into force on 29 August 2007 by and between the European Community and the Bank pursuant to Article 8 of the Council Decision 2006/1016/EC of 19 December 2006. This is the agreement that secures the financing of the project.

Finance Contract The Contract was initialed in March 2008 by the EIB representatives and BiH representatives. The contract was signed in two steps by Bosnia and Herzegovina (MFT as the Borrower and FMF and FMAWMF as the Entity) in Sarajevo on 15 July 2008 and the EIB representatives in Luxembourg on 18 August 2008.

Pursuant to the Contract, the Federation of BiH undertakes to implement the project consisting of investment schemes to be carried out by the municipalities included into the project within the FBiH through the FMAWF and FMF using the loan funds in the amount of EUR 60 million and the equal amount of own contribution of the municipalities involved, which according to the Contract totals 121.3 million EUR.

Grant Agreements Considering that the provision of own funds in the amount of 50% for investment schemes is a difficult requirement to meet by the municipalities, even under normal recession-free circumstances, the Delegation of the European Commission in BiH acknowledged the joint approach taken by the NIPAC of BiH, FMAWF, FMF and EIB that this Project should be supported by grants from pre-accession and other funding instruments (IPA, IPF, etc.).

The grant resources available to the Project either from the EU from different funding instruments or from other bilateral funding agencies like SIDA will be under the management of EIB. The agreement for the transfer and implementation of these funds (IPF-MW 2008, IPA 2009) has been signed between EIB and EU.

The grant resources shall be laid down in agreements to be signed between BiH and the EIB. By May 2012, there are only two Grant Agreements signed between EIB and BiH (FMF): the one signed on 22 September 2010 for a grant amount of EUR 5 million made available through the Instrument for Pre-Accession (IPA) budget (Municipal Window (MW) of the Infrastructure Project Facility (IPF) under IPA 2008 Multi-Beneficiary Program). This amount is only for 7 municipalities. The second was signed on 5 August 2011 for a grant amount of EUR 12 million made available through the Instrument for Pre-Accession (IPA 2009). Both of the grant agreements were ratified by the State Parliament in order for the grant amounts to be operational.

There is another grant agreement concerning the funds to be supplied by SIDA which is in its preparation stage. It is important to note that IPA funds have limited time of usage; so it is urgent to transfer these funds as soon as possible to EIB.

Moreover, the PMU is negotiating with DEU to allocate a separate grant (PPF) for project preparation which will be a contract that will provide assistance directly to the Municipalities or PITs for preparation of designs (water supply, wastewater collection and treatment) required for the implementation of project schemes and preparation of technical specifications and BoQs which will be the integral parts of the tender documents.

2.1.2 Government level

The MFT as the Borrower shall transfer the proceeds of the Loan to the FMF of the Entity which shall in turn on-lend and/or transfer, as the case may be, the same proceeds to the Final Beneficiaries, as the case may be, under the same terms and conditions of the Finance Contract.

On-lending Policy Documents

On-lending Policy (OLP) Documents include OLP document for loan funds and OLP document for grant funds (GOLP). They are developed in the cooperation of FMAWMF and FMF, and approved by EIB. First developed OLP document was the one for loan funds. The first version of this document was approved in September 2010 and the latest (second) version in May 2013.

OLP documents define the guidelines (along with financial and technical aspects) fully establishing the method of implementation of the project and all included schemes in line with terms and conditions of the Finance Contract signed with the European Investment Bank (EIB) with a view to ensuring the following:

- spending funds for intended purpose.
- implementation of the goals of the Borrower, Entity and Final Beneficiaries, for which the Contract was concluded.
- timely and successful implementation of the overall Project, including addition of other municipalities of the Federation of Bosnia and Herzegovina subject to the availability of loan proceeds.
- promoting sustainability of Public Utility Companies (PU) of the Final Beneficiaries and their financial ability to operate and maintain the existing and new infrastructure.

OLP documents also include the agreed templates of Loan and Grant Agreements to be signed between FMF and respective municipalities.

Loan Sub-contract On the State level, the MFT signed a loan sub-contract with the Federation, namely FMF on 10 December 2008. The agreement transfers the authority for the Loan agreements to be signed with the municipalities to the FMF.

Establishment of PMU It is a condition for disbursement in the Finance Contract (Article 1.04.1(iii)) that the Entity has established within the FMAWMF a PMU or an organization with equivalent function with suitable staff and appropriate terms of reference to the satisfaction of the Bank. Pursuant to that article, the FMAWMF, after Government approval, formed a new department for project management – PMU and the decision on the establishment was published on 21 September 2011.

2.1.3. Local level

Establishment of Municipal PITs

As mentioned in the *On-lending Policy Document*, signing of the Loan Agreements with the Municipalities shall be subject to some preconditions. One of the preconditions is that there should be a Municipal Decision on Establishing Municipal PIT (municipal scheme implementation unit) and appointing its members, in particular indicating the names of the PIT executives and the financial management officer for the scheme implementation in the municipality concerned.

Loan and Grant Agreements

As defined in the *On-lending Policy Document*, the Loan and Grant Agreement, after being prepared by PMU and signed by a municipality and FMF, will be submitted to the Bank by PMU.

2.2 Identification of the parties involved

The Project involves a number of actors which are defined in the agreements on the State, Federation and Municipal level. Considering that the main agreement ruling the whole project is the Finance Contract, the parties involved in the Project are mainly defined based on the definitions used in that Contract. The list of all the parties involved in the Project, including the nominated names, is given in Annex 3 of this document.

2.2.1. Bosnia and Herzegovina – Governmental Institutions

State Bosnia and Herzegovina is represented by the BiH Ministry of Finance and Treasury (MFT) as the “**Borrower**” on the state level by its Minister. Bosnia and Herzegovina is the main **Beneficiary** of the Project.

Federation The Federation of Bosnia and Herzegovina (FBiH), represented, as the case may be, by its Minister, Federal Ministry of Finance (FMF), and/or its Minister, Federal Ministry of Agriculture, Water Management and Forestry (FMAWMF) – the **Entities**.

Municipality The program will be implemented by the municipalities represented by the Mayors located in the territory of the FBiH for whom the investment schemes are carried out - **Final Beneficiaries**.

2.2.2 Funding Institutions

EIB The European Investment Bank (EIB) represented by the Associate Director and by the Senior Loan Officer is the main funding Institution in the Project – the **Bank**.

European Union The European Union (EU) supports the Project by the grants from pre- accession and other funding instruments (IPA, WBIF, etc.) with the agreements to be signed between BiH and EIB.

Other Funding Institutions The Project can be further supported by grants from other bilateral donors like SIDA, with the agreements to be signed between BiH and EIB.

2.2.3 Committees

Project Steering Committee (PSC) The Project Steering Committee (PSC) is the requirement of the EU, after their monitoring of the Project. It should be represented at the level of Minister. Being on the top level of the Project, the PSC is composed of the representatives of the actors involved in the project at the State level; i.e. MFT BiH, FMF, FMAWMF, Directorate for European Integration. The funding institutions, which are the EIB and EU represented by the DEU to BiH for the time being, are also the members of the Committee. The Head of PMU should also participate in the Committee for the dissemination of the information about the progress of the project.

Project Management Unit (PMU) It is one of the conditions of the Finance Contract that the FMAWMF of the Entity shall maintain the PMU within the organization and to ensure that it is adequately staffed. Pursuant to this Contract, the FMAWMF, after Government approval (no. 665/2010 from 10.08.2010), formed a new department for project management – PMU and the decision on the establishment was published on 21 September 2011. Being responsible for the overall management and implementation of the Project, PMU is composed of a head, an administrator/translator and two more civil servants, one as procurement officer and the other one as financial officer. The assistance related to technical issues will be provided through the engineers from Sava and Jadran Water Agencies. The work of the PMU is supervised by the FMAWMF.

Project Implementation Teams (PITs) The Project Implementation Teams (PITs) founded by Mayors of each participating municipality, are responsible for day-to-day implementation of schemes established in the municipalities. The PITs should be established before signing the Loan Agreement

with the FMF. The members of the PITs are suggested to include from the municipality a financial person and a technical person having knowledge of the investments required and to be implemented along with procurement rules. Moreover, it would also be more useful to include an expert from the utility company of the municipality, to provide technical support for the implementation of the scheme.

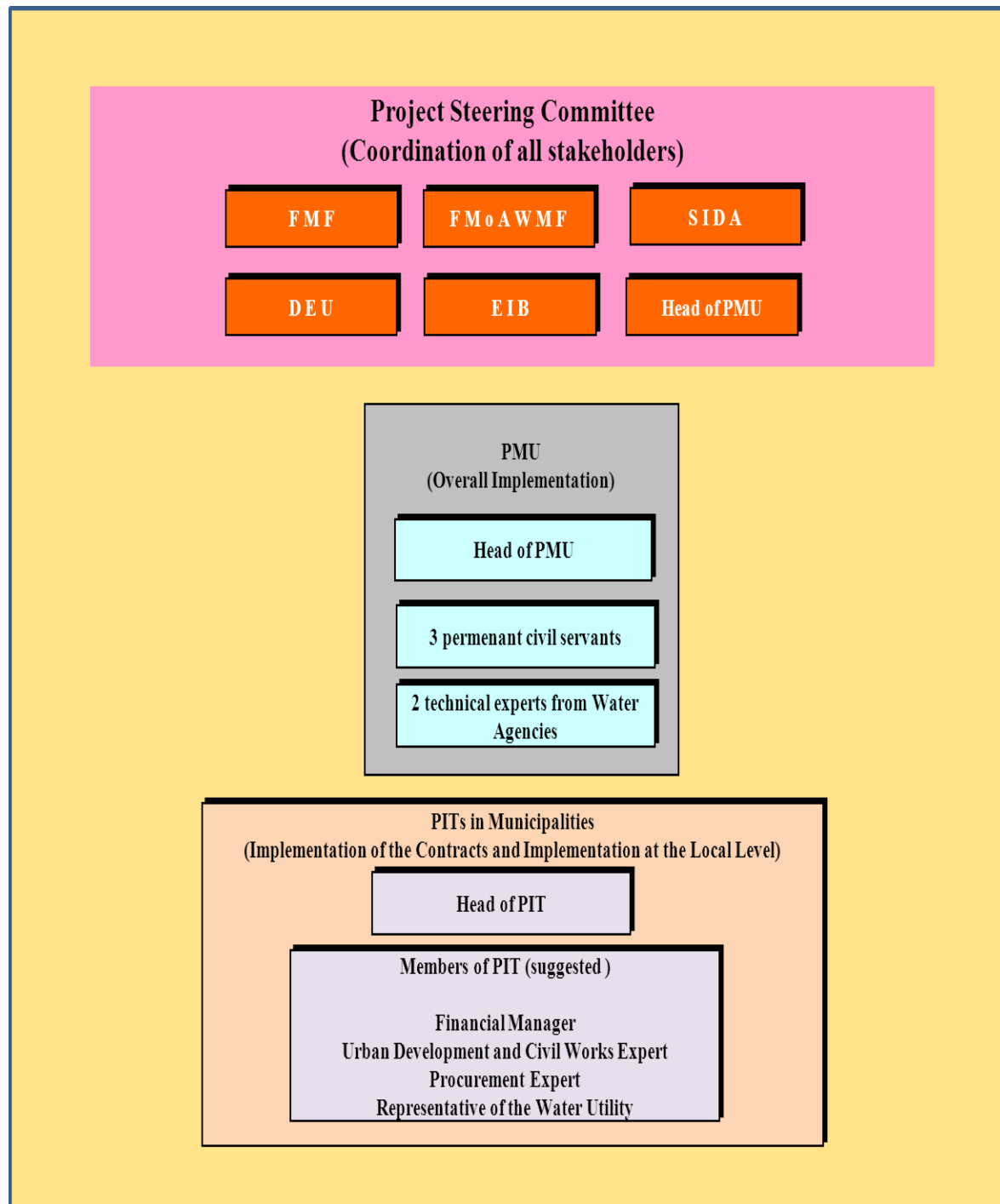


Figure 2 Committees formed under the Project

2.2.4 TA Consultant

Technical assistance is provided to PMU and PITs from the funds of WBIF/IPF, which is an infrastructure development facility for the Western Balkans funded by the EU. The IPF-TA Consultants provide assistance through the implementation process of the Project in accordance with their ToR approved by EU and EIB.

2.3 Project organization

Implementation of the Project is organized on two different levels; the Entity level for which the activities are conducted by PMU as the party responsible for the overall implementation and management of the Project and the municipal level for which the activities are implemented by the PITs. Figure 3 on the next page shows the main actors in the organization of the Project for the daily implementation.

The Project is governed by the PMU which is supported with the TA Consultant in their daily work. The TA Consultant through its project manager and/or key expert has the right to communicate directly with the PMU.

Being shown as dotted lines in Figure 3, two service contracts are included in the Project. The first contract will be financed by DEU for which the scope is to assist directly to the municipalities for the preparation of project documentation (PPF Consultant). The second service contract will be financed from the EIB loan (a certain amount of loan proceeding in each municipality) with the main aim of supervision for works in the municipalities (Tendering Assistance and Works Supervision).

PITs are in contact with the PMU directly or through the Experts from the Water Agencies. Although PITs are responsible for the project scheme of their municipalities, starting from the preparation of the Project Fiche till the end of contract implementations, PMU will supervise, approve and monitor all the municipal project schemes.

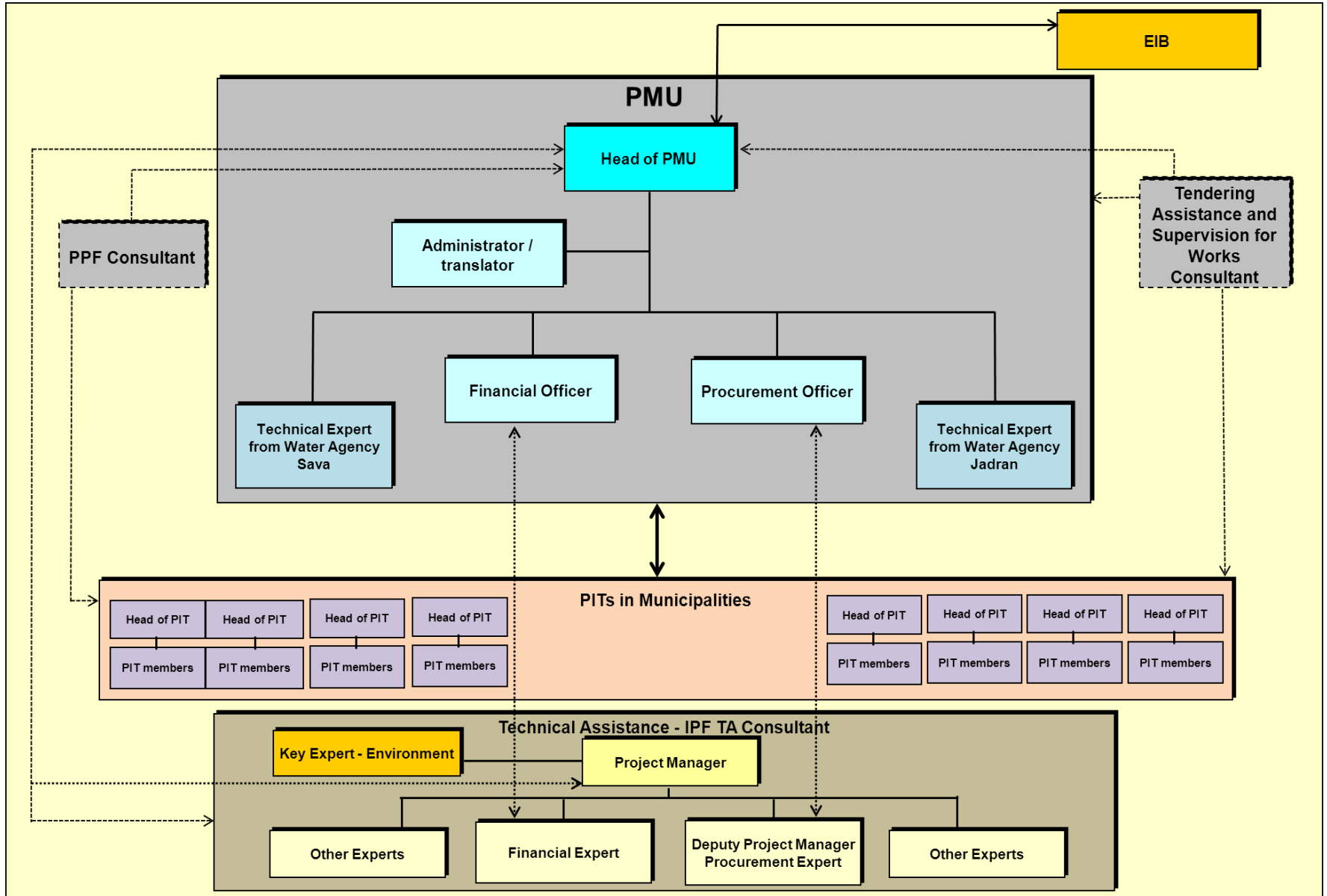


Figure 3 General organization of the Project



2.4 Responsibilities of the parties involved

2.4.1 Project Steering Committee

The Committee will be established as per the request of DEU and will be responsible for the overall coordination of all stakeholders. The follow-up will be through regular meetings of the Committee.

MFT

Being on the state level, the MFT BiH is defined as the Borrower by the Finance Contract. The Ministry signs the Finance Contract and the Grant Agreements with the EIB. After that all the responsibilities are transferred to Ministries in the Federation by the subcontracts. The MFT BiH has role in the financing of the Project in the way that they will be the contact point with the EIB for disbursement and tranche requests. The cash flow to the Contractors and/or Consultants for the scheme will be through FMF.

Moreover, the Borrower (MFT BiH) has responsibilities in accordance with the Contract as defined in Article 6 which can be summarized as if the total cost of the Project exceeds the estimated figure set out in Recital (2), the Borrower shall obtain finance to fund the excess cost without recourse to the Bank, so as to enable the completion of the Project in accordance with the Technical Description. The Borrower's plans for funding the excess cost shall be submitted in a timely manner to the Bank for approval.

FMF

Being one of the key actors at the level of Federation, the FMF is defined as the Entity in the Finance Contract. After the signature of the loan subcontract with MFT BiH, the FMF becomes the party mainly responsible for signing the Loan Agreements with the municipalities in the implementation scheme. The FMF shall and shall cause the Final Beneficiaries to ensure adequate resources and staffing for the purpose of the implementation of the schemes of the Project.

Moreover the FMF has an important role in the financing of the Project. They are responsible for transferring the tranche, disbursement and payment requests which they receive from PMU to EIB via MFT BiH. In return they pay directly to the Contractors and/or Consultants based on the invoices received from the PMU. Together with the Borrower, FMF shall ensure that the other funds listed in Recital (2) of the Contract are available and that such funds are expended, to the extent required, on the financing of the Project.

FMAWMF

The FMAWMF similar to the FMF signed the Finance Contract as the Entity. The Project is undertaken through FMAWMF concerning investment schemes to be carried out by the municipalities in the FBiH. Moreover, the FMAWMF is responsible for establishment of the PMU and must ensure that the project activities continue via this management unit.

The FMAWMF also has an important role for the scheme. They are the starting point for the implementation of the schemes as they are responsible for distributing the questionnaires to the municipalities and also the selection of the municipalities to

participate in the project. The FMAWMF shall and shall cause the Final Beneficiaries to carry out the Project in accordance with the Technical Description as may be modified from time to time with the approval of the Bank, and complete it by the final date specified therein.

As defined in the Contract in Article 6;

The FMAWMF shall cause the Final Beneficiaries to:

- (a) implement and operate the Project in conformity with the laws of the European Union, as well as any applicable international treaties, whose principal object is the preservation, protection or improvement of the Environment, to the extent implemented by the law of Bosnia and Herzegovina or specified by the Bank prior to the date of the Contract; for which purpose "Environment" means the following, in so far as they affect human well-being: (a) fauna and flora; (b) soil, water, air, climate and landscape; and (c) cultural heritage and the built environment in the name of the FMAWMF. Moreover, the FMAWMF shall submit to the Bank the non-technical summaries of the EIAs, as well as the associated environmental impact studies as soon as they are available.
- (b) obtain and maintain all approvals by, and authorizations from, the competent environmental authorities of the Borrower required for the purpose of indent (a);
- (c) ensure that the Project does not have any significant effect on any site of nature conservation importance;
- (d) ensure that no materials or substances which could have adverse effects on the environment is used or disposed of in the construction, operation and maintenance of the Project; and
- (e) carry out all maintenance and rehabilitation works on the Project which may be required by the competent environmental authorities.

In accordance with the Contract, for the disbursement of the first tranche, FMAWMF should form a PMU within the Ministry with suitable staff and appropriate terms of references to the satisfaction of the Bank, confirm the scope of the project, issue a general procurement notice announcing the program of works and services for the Project to be published in the Official Journal of the European Communities.

2.4.2 Project Management Unit (PMU)

The PMU is responsible for managing and implementing liabilities of FMAWMF defined in the Finance Contract and the grant agreements, as well as proposing effective use and management of TA. The PMU for the project was assigned and the responsibilities were defined with the Decision of FMAWMF dated 21 September 2011.

PMU operational cost shall be covered by FMAWMF and Water Agencies in line with the agreement between the Agencies and FMAWMF regarding Project implementation. For conducting specialist operations deriving from the Contract, FMAWMF shall, along the request of PMU, hire external experts with special contracts, and cost of these arrangements shall be covered by Water Agencies along instruction from the Minister or in line with the Agreement between Agencies and FMAWMF on project realization.

In this respect the roles of PMU in the project implementation process are:

- coordination towards EIB, DEU, MFT, FMF, Directorate for European Integrations of BiH, other interested institutions in BiH, so as towards international organizations included in the project.
- performing overall project implementation as stated under point 7 of the On-lending policy document which is explained in detail in Section 0.
- preparation, updating and adopting documentation regarding the Project implementation, such as the Rules of Procedure, reports, Work Plans, Project Procedure Manual, Financial Procedures Manual, Project Procurement Guide, various documents regarding uniformity (tender documentation, contracts with sub-projects' contractors, etc.) so as other acts needed for the operation.
- conducting tasks within the scope of its work, deriving from the Contract obligations i.e. Grant Agreement for IPF-MW 2008, IPA 2009, Technical Assistance Agreement, etc., conducts development of activities reports, keeping archive of documentation and minutes from meetings and other activities that are, besides contractual obligations, defined with the documentation adopted for the needs of Project realization, such as: On-Lending Policy Documents for Grant and Loan, Rules of Procedure, reports, Work Plans, Project Procedure Manual, etc.
- conducting operational tasks on the preparation of technical part of Loan and Grant Agreements with municipalities and sub-projects' realization follow-up, coordination of the work in municipal PITs and follow-up of development and updating of Project Fiches, being the component part of Loan Agreements, implementation plans and other activities regarding the implementation of municipal sub-projects and submission to EIB for approval.
- follow-up and coordination of Tender Documentation development within municipalities.
- control of the whole tendering procedure in the municipalities. PMU will participate in the whole tendering process starting from finalization (approval) of tender documents, announcement of tenders, and participation in tender evaluation till to contracting procedures with selected bidders including contracting.

- performing final control and definitive adoption, sign and certify all individual documents, i.e. terms of reference, tender documents including the QA report of the TA, complete documentation on conducted public procurement procedures including the evaluation report and draft contract with successful consultant/contractor together with annexes. As most of the work contracts for the infrastructure will be with local contractors in local language, the following documentation should be translated into English language in order to be submitted to EIB: a PF, templates of tender documentations, QA reports for TD, Procurement notice, decision of Mayor about contract award, and after finishing tender procedure, a summary of the contract with the local contractors, pages 25 and 26 in the Works TD template, or 2 pages of other kinds of contracts and progress reports.
- for international tenders, send to EIB the Procurement Notice (PN) without the planned date of tender publication, at the moment when TA sends the QA report on reviewing the TD. Afterwards, 15 days before the certain tender publication the Procurement Officer sends to EIB the Final PN with the planned date of tender publication.
- control and verification of the documentation about the expenditures and requests from PITs.
- preparation of payment request from special account opened at commercial bank by MFT directly on accounts of consultant/contractor.
- report to EIB.
- Regular cooperation and coordination with the Contract signatories, all institutions interested in the project, and other Project beneficiaries along the segments relating to their jurisdictions in this project.
- establishing, maintaining and regular updating of a functional web-page for the needs of Project implementation.
- shall and shall cause the Final Beneficiaries to purchase equipment, secure services and order works for the Project by open international tender or other acceptable procurement procedure complying, to the Bank's satisfaction, with its policy as described in its Procurement Guide in force at the date of signature of the Contract in the name of the FMAWMF.
- shall provide to the Bank certified true copies of a contract or contracts requiring publication in the OJEU in respect of items specified in the Technical Description as eligible for financing under the Credit which contract or contracts shall have been executed on terms satisfactory to the Bank having regard to the Bank's Procurement Guide in force at the date of signature of the Contract in the name of the FMAWMF.

- shall cause the Final Beneficiaries to maintain, repair, overhaul and renew all works and property forming part of the Project as required to keep it in good working order and secure adequate funds for the said purposes in the name of the FMAWMF.

Apart from the main responsibility of overall project implementation, each position in PMU has definite responsibilities.

Head of PMU

Authorized by the FMAWMF, the Head of PMU has power of decision. She/he also has the power to decide on regular work of PMU, daily work program as well as on all technical issues. It is the person who is authorized for the overall Project and PMU operations management and execution of the Project in accordance with the rules and guidelines of the Finance Agreement, other agreements and policy documents ruling the project and this Manual.

The person has the authority to communicate directly with the Entity.

Head of PMU should participate in the PSC meetings for dissemination of information on the project progress.

Moreover, the Head of PMU is authorized to sign the technical communication (the communication includes the technical documentation covered in Section 0) with EIB and communicates directly with EIB for all technical matters pertaining the project including the submission of technical documentation and progress reports. He/she has the authority for direct correspondence on the behalf of FMAWMF with final Beneficiaries and other institutions representatives (FMF, MFT, Directorate for European Integrations of BiH, EIB, DEU, SIDA, TA, WAs) and has the responsibility for participation, support and project realization.

Head of PMU is responsible for management, use and coordination of Technical Assistance (TA), any other assistance provided for the project, supervision of permanent PMU members' operations, supervision of the work of experts hired from TA funds, as well as the funds of EIB and other donors allocated for support to PMU i.e. the Project.

The Head of PMU is authorized to prepare requests for disbursement of loan and grant funds, sign invoices for payments along the situations for completed services, works and procurements from loan and grant funds, approval of requests for official travels for PMU members on the behalf of the Ministry, preparation of requests for provision of additional material and technical support to PMU.

Within her/his specific responsibilities and authorization, the Head of PMU shall:

- administer PMU and coordinate duties with all other members of PMU and stakeholders in the project implementation (relevant institutions, funding agencies and final beneficiaries, consultants etc.).

- organize preparation of documents for the needs of project implementation and PMU operations, and takes care of their realization.
- send for approval periodical reports, financial plans, and other project progress related documentation, or a segment of the project, being obligation of the Ministry pursuant to Loan and Grant Agreements signed.
- ensure that the Project and municipal schemes follows the provisions of agreements, contracts and project documentation.
- administer and coordinate activities and inputs of all the project stakeholders and project implementation progress.
- follow and lead the official submissions to EIB (technical outputs and progress reports) and/or FMF (disbursement and tranche requests).
- organize development and application of a suitable reporting system in accordance with the requirements of Finance Contract and Grant Agreements.
- assess PMU members' operations in line with Internal Procedures of the Ministry, in the coordination with civil servant in charge of the relevant sector to which she/he submits her/his daily reports.

Financial Expert

Financial Expert is a civil servant employed by the FMAWMF. This expert reports to the Head of PMU. The expert is responsible for all the financial management in the project.

Within her/his specific responsibilities, the Financial Expert shall:

- propose options for an adequate financial control and monitoring system for the implementation of the Project, with a special focus on the management and monitoring of investments funded by different financial sources (EIB loan, EU grant funds, other grant funds, local contribution).
- prepare the setup of financial procedures for project implementation, including its reporting process, i.e. a separate Financial Procedures Manual (FPM) etc.
- establish a financial transaction management mechanism for all project related issues, including all bank transfers (local and international) and payments of contractors etc. (defined in FPM).
- control and comment on the payment requests and financial reporting received from the PITs and forwards them to Head of PMU for approving.
- participate in regular PMU meetings.

- participate in all other activities and tasks assigned by the Head of PMU.

Procurement Expert

Procurement Expert is a civil servant and employed by the FMAWMF. This expert reports to the Head of PMU. The expert will mainly be responsible for the production and revision of technical documents prepared by the municipalities for their implementation schemes.

Within her/his specific responsibilities, the Procurement Expert shall:

- ensure the implementation of Finance Contract provisions and fulfillment of the Ministry's obligations, which are a precondition for an operative implementation of individual projects and makes sure that all procurements of works and services for individual project schemes are conducted in accordance with the legislation established by the Contract.
- check legality of procurement procedures implemented by final beneficiaries along individual projects.
- prepare the description of procurement procedures in line with the Finance Contract (Procurement Procedures Guide).
- establish and maintain an efficient system for monitoring all procurement and contracting activities.
- monitor progress and assist to PITs with the preparation and implementation of procurement procedures for individual projects.
- control tender documents prepared by PITs.
- submit terms of reference, tender documents, and complete documentation on conducted procurement procedures including the evaluation report and draft contract with successful consultant, contractor together with annexes and other needed documentation to Head of PMU for further submission to EIB upon completed inspection.
- comment and approves tender evaluation reports submitted by PITs and/or the consultant responsible for the tendering process and inform the Head of PMU about these actions.
- monitor compliance with the terms specified within tender procedures and contracts.
- participate in regular PMU meetings.
- participate in all other activities and tasks assigned by the Head of PMU.

Administrator /
Translator

This expert, who is directly reporting to the Head of PMU, is employed by the FMAWMF. The expert will be responsible for the administrative services and the translation of documents.

Within her/his specific responsibilities, the Administrator/Translator shall:

- translate documents from/into English and vice-versa as required by the Project.
- carry out simultaneous/consecutive interpretation during meetings concerning the Project.
- be responsible for the administrative tasks such as receiving, registration and filing of communication documents, invoices and other financial, legal and general documents related to the Project;
- set-up a monitoring system for the administrative component of the Project.
- participate in regular PMU meetings.
- participate in activities regarding preparation and maintenance of project web page.
- participate in all other activities and tasks assigned by the Head of PMU.

Technical Expert
from Water Agency

The municipalities implementing the investment schemes under the Project are connected to two different Water Agencies, namely Sava and Jadran. There will be one expert from each Water Agency. These experts will report to the Head of PMU. They are responsible to provide technical assistance to municipalities in their daily activities.

Within her/his specific responsibilities, the Technical Expert shall:

- maintain close cooperation and coordination with municipal PITs on technical issues,
- ensure completion of specific operational activities on the preparation of technical part of activities following the provisions of the Loan Agreements with municipalities,
- monitor the work of technical experts, procurement experts, as well as other experts appointed from the Water Agencies. This person is also responsible for conducting specialist tasks, as required by the Head of PMU.
- monitor the preparation of required documentation (Project Fiche, design and technical specifications, contracts etc.) in relevant municipalities,

- provide prior statement on readiness and correctness of technical documentation (terms of reference, tender documents, complete documentation on conducted procurement procedures) which were checked by the TA and afterwards forward to the Procurement Expert of PMU after all the comments are incorporated for further processing,
- assist in preparation and submit reports about the situation of individual project schemes (monthly reports, progress report, and final reports) to PMU,
- participate in regular PMU meetings,
- participate in all other activities and tasks assigned by the Head of PMU.

2.4.3 Municipal Project Implementation Teams (PITs)

The Project Implementation Teams (PITs) founded by Mayors of each participating municipality, are responsible for overall implementation of schemes established in the municipalities. They should be formed before the Loan Agreement is signed between the FMF and the Municipality. The PITs are in contact with the PMU and the Technical Experts from the respective Water Agencies.

The specific responsibilities of PITs include as follows:

- preparation of Project Fiche and its submission for the approval of PMU,
- preparation of necessary project documents (terms of reference, designs and technical specifications, complete Tender documentation on conducted procurement procedures and draft contract with successful consultant and contractor together with annexes) and their submission to the PMU,
- obtaining all necessary permits for and during the project implementation, including the resolution of property issues for the sites and authorizations and permits for the environment, so as the license for uninterrupted access to the construction site and permit for use of land,
- together with Water Agencies (PMU), preparation and implementation of procurement procedures according to Finance Contract, in accordance with the OLP document and the implementation plan and PF adopted by EIB,
- appointment of the heads of the project for each sub-project for control and verification of invoices, reports, expenditures of consultants/contractors,
- preparation and submission of progress reports, including performance indicators and the progress on the scheme.

- submission of payment requests, invoices, temporary/finalized situations of consultant/contractor, together with the record of commission for reception and control with revision record to PMU Financial Expert after inspection.
- follow-up on the environmental impacts of the project during the implementation period including construction.
- establishment and appointment of necessary commissions for reception, control and filing of provided material, and following the completion of contractual works, to form commissions for technical inspection, final calculation of finalized works, taking over, and after contract signatures for commissioning, inspection, and handover.
- establishment of a commission for reviewing/revision of project documentation.
- preparation of disbursement and tranche requests and submission of this documentation to PMU.

Moreover, especially for tranche disbursement a number of tasks have been defined in the Finance Contract which should mainly be implemented and/or monitored by the PIT. Some of the below listed items are the municipal obligations to be provided from the competent authority and those will be monitored and followed by PIT.

- for schemes within the Project for which competent authority requires an EIA, the non-technical summary, the environmental impact study, the evidence of the public consultation and a copy of the relevant part of the final development permit demonstrating the incorporation of EIA and the public consultation.
- for schemes of the Project for which the competent authority does not require an EIA, the copy of the relevant decision of the competent authority and evidence of public disclosure of the said decision.
- for schemes of the Project which have or may have significant impact on areas of nature conservation, the corresponding representation of the FMAWMF and an appropriate assessment pursuant to the principles and practices similar to those outlined in Article 6 of the Habitat Directive 92/43/EEC in the form outlined in Schedule G of the Contract.
- for schemes of the Project which have not significant impact on areas of nature conservation, the corresponding representation of the FMAWMF of the Entity in the form outlined in Schedule F of the Contract.

2.4.4 TA Consultant

Technical assistance is provided to the PMU from the funds of WBIF/IPF, which is an infrastructure development facility for the Western Balkans funded by the EU and administered by the Directorate General of Enlargement.

Two main areas of the technical assistance are defined as follows:

1 Support to PMU throughout overall project activities

The TA Consultant is supporting the PMU activities by regular meetings with PMU to follow the progress. TA Consultant assists in: preparation of project documentation including project fiches and tender documents, assist in preparation and/or updating of feasibility studies in order to define the scope of the sub-projects, undertakes scoping visits and writes FFSR reports for the possible inclusion of new municipalities into Project (subject to EIB's approval), assists in preparation of project procedures and reporting templates for the monitoring activities. Moreover, the TA Consultant is also assisting the PMU in tendering/contracting procedures for the Tendering Assistance and Supervision of Works service contract to be managed by PMU.

2 Support to municipal Project Implementation Teams (PITs)

This is mainly an indirect assistance to respective municipalities through PMU. The TA Consultant assists the PITs in preparation of their documents like tender documents and also defining the scope of the schemes for the new municipalities. The contact with PITs should always involve the Head of PMU. Moreover, the TA Consultant shall provide training sessions/workshops for the municipalities in areas of procurement, project management, contract management, project documentation etc. The extent of the trainings, the timings and venue and all other planning will be defined after a training needs analysis (TNA) to be conducted in the participating municipalities.

2.4.5 EIB

European Investment Bank (EIB) who is the main provider of the loan for the Project is one of the signatories of the Finance Contract. The Bank plays the role as the last approval party for the documentation in the project. The project fiche, in case of international tenders, the tender documents and tender evaluations should be approved by the Bank before proceeding to the next step. In addition, the Bank approves the disbursements and releases the tranches for the loan. The grant funds available for the project either from EU programs or other bilateral funding institutions are also supplied through EIB. In this respect the Bank is responsible for all the communication with these funding institutions and all the follow-up of the sources used for funding the project.

3 Project activities

3.1 Overall implementation

The Project includes a number of activities for which the responsibility for the overall implementation lies with the PMU. This overall responsibility is divided into six headings in the on-lending policy document in order to define the interactions with the other stakeholders and as well as the relations with the main activities of the project.

- 1 **General project management:** PMU is responsible for the overall project implementation; including financial management, supervision, reporting, monitoring and evaluation.
- 2 **Loan and grant agreements with municipalities:** Within the Project, leading responsibility of FMF is to, following the received proposal of PMU, prepare and finalize Loan and Grant Agreements with municipalities.
- 3 **Sub-projects implementation support:** Sub-projects shall be implemented by Municipal PITs, under supervision and coordination with PMU. While all the works contracts (implementation of Contract and reception of output results – reports) would be implemented by the municipalities, with periodical and occasional random checks of PMU, the works supervision will be conducted centrally by a consultant team monitored by the PMU.
- 4 **Financial management:** Responsibility for overall financial management within the project is designated to PMU. PMU based on PIT's request and documentation prepares payment requests with all supporting documents required and provides for their signing by the authorized signatories from FMAWMF and FMF. Financial funds will be directly transferred from special account to the accounts of contractors. PMU ensures quality control of these processes and implements periodical and occasional audits within the participating municipalities.
- 5 **Project progress implementation overview:** PMU will conduct implementation progress check of each individual sub-project at participating municipalities in comparison with the detailed implementation plans which will be presented after the process of signing Loan Agreements. The implementation plan given as a forecast in the Project Fiche will be updated by the PITs and submitted to PMU during the reporting (quarterly reports).

6 Monitoring and evaluation: PMU will conduct monitoring of the project progress and report to EIB and FMF on that.

In order to achieve the implementation of the Project within the provisions of the Finance Contract and the grant agreements, the above defined responsibilities are regrouped into a set of activities whose accomplishment will grant a successful project implementation.

Horizontally, the activities of PMU can be generally divided into 3 levels as:

- Reporting, monitoring and evaluation of project progress, communication with project promoters and other financial institutions, financial management etc.
- Direct input and assistance to municipal PITs on the preparation and implementation of project components.
- Planning, preparation and coordination activities within PMU.

In the vertical axis, the direct responsibilities of PMU are the above stated six areas. Graphical overview of responsibilities and activities is given in *Figure 44* on the next page.

What is unique for all stated activities is the general responsibility of PMU for the overall and especially technical implementation of the Project.

Considering the fact that a successful project implementation implies a good and synchronized implementation of the sub-projects and project components of all included municipalities in FBiH, planning, monitoring, financial management and coordination of activities seem to be the basic challenges of PMU.

Project Fiche appears to be as the basic and most important document in the process of implementation since it defines the scope of sub-projects, dynamics and way of implementation and serves as basis for developing a general plan for the implementation of project and financial plan of disbursement and expenditure of funds.

The procurement and contracting seem to be the critical key activity within the process of project implementation which will define the implementation of activities envisaged by Project Fiche.

INTRODUCE PITs TO DOCUMENTATION, OBLIGATIONS AND PROCEDURES	PROJECT DOCUMENTS, REPORTS, GUIDES AND GUIDELINES	PROJECT DOCUMENTATION REPORTS	GENERAL PROJECT MANAGEMENT
ASSIST PITs IN DEFINING PROJECT COMPONENTS AND PREPARATION OF PF	ASSIST IN PREPARATION OF PROJECT FICHE AND OTHER DOCUMENTS FOR SUBSIDIARY CONTRACT AND GRANT AGREEMENT, SIGNING CONTRACTS	SUBMISSION OF SUBSIDIARY CONTRACTS AND GRANT AGREEMENTS TO EIB AND FMF FOR SIGNING	CONTRACTUAL DOCUMENTATION WITH MUNICIPALITIES
REVIEW AND COMMENT ON THE DOCUMENTS, PROCEED FOR FURTHER PHASES TECHNICAL ASSISTANCE	IMPLEMENTATION PLAN OF PROJECTS; MONITORING AND COORDINATION OF PUBLIC PROCUREMENT	PLANNING CRITICAL ACTIVITIES TECHNICAL AND OTHER ASSISTANCE	PROJECT IMPLEMENTATION SUPPORT
PREPARATION OF FINANCIAL REPORTS AND DOCUMENTS	PLANNING EXPENDITURE OF FUNDS, DISBURSEMENT OF TRANCHEs, PAYMENTS AND OTHER ACTIVITIES	ACTIVITIES ACCORDING TO CONTRACT	FINANCIAL MANAGEMENT
MONITOR IMPLEMENTATION PROGRESS	REVISION OF PROJECT IMPLEMENTATION PLAN, SYNCHRONIZATION OF PROJECT ACTIVITIES, MONITORING AND EVALUATION	PROJECT PROGRESS REPORTS	PROJECT PROGRESS IMPLEMENTATION OVERVIEW
PREPARE AND ORGANIZE MONITORING MISSION AND EVALUATION	PREPARATION OF MONITORING ACTIVITIES AND EVALUATION REPORTS	MONITORING AND EVALUATION REPORTS	PROJECT MONITORING AND EVALUATION
MUNICIPALITY PITs	PMU	FMoAWMF, FMF, EIB, OTHERS	

Figure 4 Overview of responsibilities and activities in the Project

3.2 Project phases

The overall project can be divided into three main phases as given in Figure 5 on the next page.

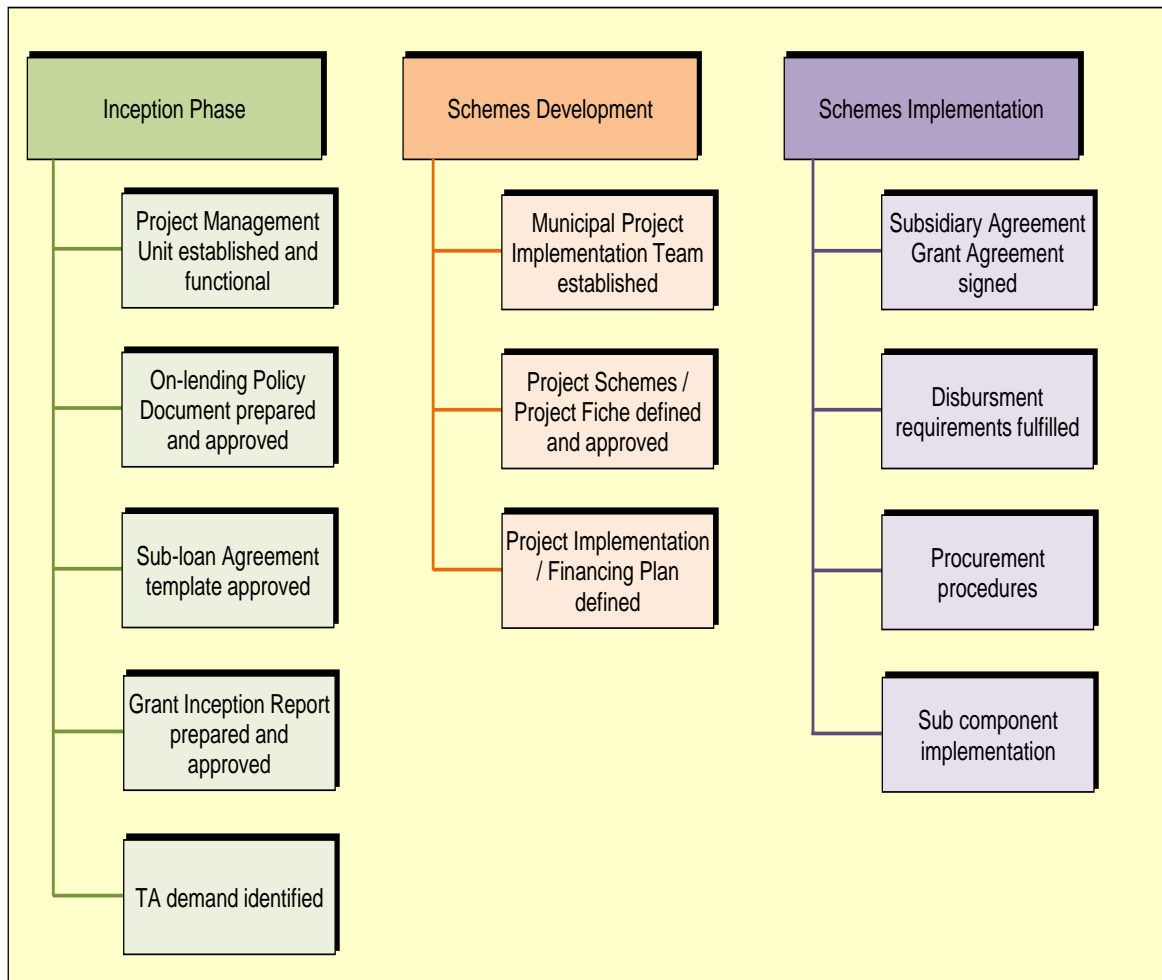


Figure 5 Project phases and key activities

3.2.1 Inception phase

PMU established

Pursuant to Finance Contract, the FMAWMF, after Government approval (no. 665/2010 from 10.08.2010), formed a new department for project management – PMU and the decision on the establishment was published on 21 September 2011.

The PMU started functioning with regular meetings.

On-lending Policy Document

The first version of the On-Lending Policy Document was prepared by FMF and FMAWMF and finally approved by EIB in September 2010, and the second in May 2013.

Loan Agreement template

In close cooperation with PMU, FMF prepared and EIB approved the format of Loan Agreement which is annexed to the On-lending policy document.

Grant Inception Report

The PMU has already prepared and submitted the Grant Inception Report for the project segment included in the Grant Agreement IPF MW 2008 – BA. Following the signature of the agreement for the second grant fund (IPA 2009), the PMU prepared and submitted the Inception Report for the schemes included in the relevant agreement to EIB and DEU in late 2011.

TA demand

The assistance required from the TA Consultant is defined with the ToRs prepared and approved by EC. The ToR for the TA defines a general assistance to the PMU. However, the specific assignments are defined in separate ToRs prepared for each component of the project.

3.2.2 Schemes development

The activities involved including the documentation to be produced during the schemes development as well as the implementation of the schemes are shown in Figure 6. The production of documents during the development and implementation of the schemes are mainly under the responsibility of the Municipalities through PITs with support and coordination from PMU and the TA Consultant, if and when required.

Municipal PITs established

The signed Finance Contract includes in its Schedule A.1 the municipalities for which the loan will be available for their project schemes. In case there is a remaining loan fund, other municipalities may be added, subject to demonstration to the Bank that the associated schemes have a close connection with schemes already included or will have significant public health or environmental impact as demonstrated by an overall prioritization of measures relating to the water sector.

In such case, the municipalities should be selected by the FMAWMF based on the questionnaires they have filled and following the same procedures of prioritization for the municipalities already included in the Finance Contract. In general, with regard to inclusion of new municipalities into the Project, priority shall be given to the municipalities:

- with no prior access to or participation in projects financed by the international financial institutions,
- with lower indebtedness rate as compared to indebtedness ceiling laid down by the Law.
- proposing projects that ensure better effects of water protection (higher level of treatment of wastewaters).

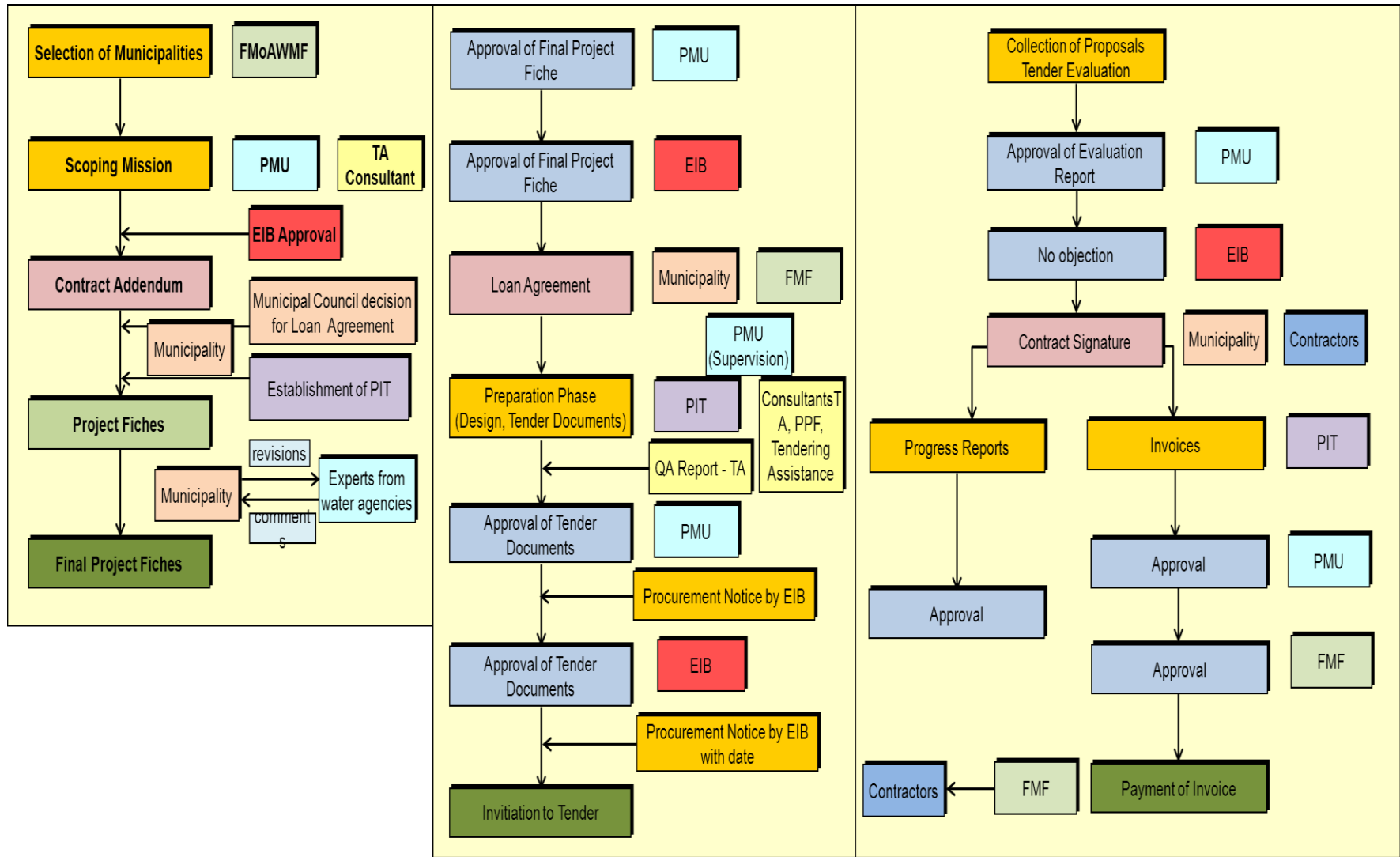


Figure 6 Document flow during the implementation of schemes¹

¹ The approval of the tender documents and tender evaluation reports in the figure describes the procedure for the international tenders. Tender documents and tender evaluation reports for local tenders are not subject to the EIB approval and/or non-objection.

After this selection, a scoping mission should be conducted to each Municipality by the TA Consultant to define the sub-project scheme. Scoping Mission Report should be prepared based on the data obtained from the Municipality and the Water Agencies and approved by PMU. The schemes proposed shall be eligible for inclusion into the project if they meet the following requirements:

- The scheme concerns water and sanitation (wastewater discharge and treatment).
- The scheme improves the municipal infrastructure and service delivery.
- The scheme has a clear and complete investment and financing plan, including evidence that any proposed co-financing is or shall be secured in a timely manner.
- The scheme's investment and financial projections show that its implementation will increase public water supply and sanitation coverage (eventual reduction of restrictions) while reducing negative effects on drinking water sources or watercourses (or provide for a long-term implementation of these effects, upon completion of the overall project in a municipality).

After conditions have been met for an applicant municipality to officially be included in the Project, pursuant to On-lending policy document, the Head of PMU shall:

- officially inform the municipality on project inclusion and further steps and obligations of the participating municipality,
- schedule initial meeting with the municipality representatives in order to inform them on their obligations (which are described in detail all through this and the following sub-section).

At this point in the project implementation, it is the pre-condition for the municipalities to establish PITs by the Mayors in order to continue development of project schemes and to submit decision by the Municipal Council to PMU.

In order to start activities on PF preparation, participating municipality is obliged to submit to PMU the following decisions:

- Document/information from FMF about municipal loan capacity.
- Decision of the municipal council on giving approval for taking loan for a municipal scheme, in accordance with municipal loan capacity and the decision to use the municipal funds in the implementation of the project.

- Decision on municipal PIT establishment or PIT members' assignment, with stated names of PIT head and the member in charge of financial management of municipal sub-project implementation.
- Municipal Major's Statement including the assurance of timely provision of all needed permits, including the Decision on expropriation and land acquisition.

Project Fiche

The Project Fiche (PF) provides a short description of the scheme subject of a subsidiary agreement and forms an integral part of the subsidiary agreement. The approval of the Project Fiche by the EIB is one of the pre-conditions for signing of subsidiary agreements. Upon the inclusion of a municipality into the Project, the PMU submits to the participating municipality or municipal PIT the template for the PF provided by EIB (given in Annex 4) and informs the PIT about the way of preparation and required quality of finalized document in accordance with the requirements of the Project and EIB. The actual volume of required documentation and the analysis shall be determined for each individual scheme separately subject to its scope and complexity.

A participating municipality is responsible for PF preparation in the scope and quality pursuant to the requirements of the Project and EIB. As the contractual language of the project is English, the PFs should either be prepared in English or translated into English by a competent translator. The participating municipality bears all cost of PF preparation (the first box in Figure 6).

The Project Fiche shall:

- define and describe the proposed scheme clearly with defined scope, estimated value, and implementation sequence of certain components and other actions dependent on type and complexity of sub-projects,
- demonstrate that the scheme meets the goals of the project,
- show that the scheme is technically and financially feasible with clear identification of physical indicators and expected benefits,
- contain realistic and acceptable operational sustainability plan and cost coverage,
- define the need to develop an Environmental Impact Assessment (EIA) and to provide environmental permits, Protected Areas Impact Assessments etc.
- confirm that all pre-conditions for the implementation of scheme are in place, including property rights matters, issues pertaining to the issuing of relevant licenses and other documentation under the applicable legislation of FBiH and terms and conditions of the Contract.
- contain prepared informative implementation plan, including financial plan and the procurement plan.

After the quality assurance of the TA Consultant, when PMU asserts that PF is satisfactory for the Contract and EIB requirements, PF is officially sent to EIB for approval. After EIB's acceptance of the submitted PF, PF is considered approved and represents the basics for the preparation of Loan Agreement between a municipality and FMF (the second box in Figure 6). The detailed communication lines during the procedures for the preparation and approval of the PF can be followed from the explanation given in Section 0 for the TDs which will be the same for the PF.

After the approval by EIB, any change in PF regarding the revision and/or extension of the scope of the scheme, nature of sub-components, expected goals and benefits of project implementation, changes that significantly impact the scope and nature of a sub-project, shall be considered as the amendments of the Loan Agreement. These changes involve the sub-projects financed by loan and/or grant funds. If there is any revision in the sub-project financed by the municipality, this should still be informed to EIB but this will not require an amendment unless there is a significant cost change in the sub-project. After the EIB is informed about the revision in the scheme and/or the sub-project in writing, the works will cease till the amendment is signed with the FMF unless EIB informs otherwise. Transfer of funds from one sub-project in the scheme to the other one would not necessarily require an amendment provided that the total funding remains unchanged.

If a participating municipality would like to amend the PF, it needs to address the PMU in written form with sufficient justification for the amendment. The head of PMU, in coordination with other members of PMU and discussion with the representatives of FMF and EIB will consider the submitted request of the participating municipality and inform it about the results of the discussions and further procedures.

Project Implementation / Financial Plan

Project Implementation Plan (PIP) should present a basic systematic document of a municipal sub-project. This is a dynamic plan which is revised through the implementation of the scheme. It is not considered as an integral part of the PF because of the reasons given below which make the implementation impractical:

- Project Fiche is an integral part of contractual documentation and as such is subject to strict procedure regarding changes, which from the aspect of planning is mostly unfavorable.
- Preparation of the Implementation Plans include too many uncertainties at the time of PF preparation, especially regarding:
 - modes and procedures of procurement,
 - procedures for on-lending Grant and Loan funds,
 - availability of certain funding resources.

Due to the above stated reasons, implementation plans would not be developed within PF, but rather developed and adjusted in line with the development of the project. However, the PF should still include an implementation plan so that the funding institution will be able to understand the planning and financing of the schemes. The PF will include:

- informative implementation plan in which only the sub-projects and their implementation period in terms of quarters of the year are given (please see Annex 5).
- detailed PIP as given in Annex 5, including the forecasted figures and which will be the baseline for the monitoring of the scheme. This plan will be revised in each quarterly report of PIP indicating the actual situation but these revisions will not be considered as amendments to the Project.

Detailed PIP represents basis for the preparation of the overall implementation plan of the Project and the financial planning and monitoring of the project schemes as well as the overall project.

The detailed PIPs should follow and be in accordance with:

- definition of sub-project components and their estimated costs in PFs,
- procurement procedure manual developed for the overall project,
- On-lending policy for the grant funds,
- financial plan of the schemes defined within PF and availability of certain financial resources.

Detailed PIP consists of three main elements; implementation plan, procurement plan and financial plan.

Implementation plan (Activity-time chart)

Implementation plan is a bar chart which shows the activities and the timetable for the implementation of those activities for each component of the sub-project. The plan should be submitted in excel format for which a template has already been provided in the annexes of the Grant Agreement and included in this manual (Annex 5).

Procurement plan

Procurement plan strictly and precisely defines the number and type of procurement in the project scheme in each municipality. The plan cannot be revised through a regular procedure of sub-project monitoring and implementation. Each revision is considered as a change in the scope of the sub-project and an amendment of PF.

The procurement plan for the schemes in each municipality should follow the “Procurement Procedures Guide”, a document prepared by PMU defining the procurement strategy of the Project.

There may be some components inside the procurement plan which could not be defined in detail at the time of PF approval because they depend on previous specific sub-project components implementation (development of construction design etc.). Moreover there may be activities that need to be developed by municipality or municipal PITs and represent a precondition for the implementation of procurement procedures. These activities can be divided in two subgroups:

- activities defined by legal requirements relating to the preparation and realization of investment projects:
 - Preparation of construction and/or preliminary designs
 - Expropriation and land acquisition and obtaining proper permits and accessions
- preparation of tender documentation for subproject components.

Considering the conditions for each individual sub-project, the municipal PIT shall define timelines needed for the fulfillment of above mentioned activities. For the activities defined along PF as first to be implemented, maximum time for their fulfillment should not be longer than three months from signing Loan Agreement.

This needs to be considered when developing PF and if there are obstacles for subprojects implementation they need to be elaborated within PF, i.e. PITs must timely initiate activities for solving such matters (revision of actual designs, updating designs, solving expropriation and land acquisition relations, activities and actions on obtaining construction permits, etc.). PMU is in the process of allocating some grant funds from DEU, for assisting municipalities during preparation of designs and technical specifications and BoQs which will be the integral parts of the tender documents.

Financial plan

The financial plan for each sub-project should be prepared specifically considering the conditions for On-lending policies of Loan and Grant funds and the conditions of financing from the own funds.

General principles for developing financial plan for the subprojects are listed below:

- All funds for financing subprojects are allocated (on lending) and are used for financing/implementation of subproject,
- During subproject implementation certain components will be financed in accordance with availability of funds from different sources of finance,

- The aim of planning is to as much as possible decrease the number of different financing sources of individual components,
- Optimal solution would be for each component to be financed from maximum of two different financial sources, but it is allowed / possible for each/some component to be financed from one financial source (loan or grant or local funds),
- Services (design and supervision) are not financed from grant funds,
- Loan funds are primarily used,
- Financing from municipal funds should be adjusted with municipal possibilities and timely envisaged within budget.

Detailed PIP shall be regularly updated and revised during subproject implementation on 3 months basis and in following cases:

- Before the beginning of the process of procurement i.e. before each publishing of tender for individual subproject component,
- Following a successful completion of tendering procedure,
- As individual fund sources become available e.g. after signing Grant Agreement.

PIT is responsible for all these activities and it implements them along consultations with PMU members.

3.2.3 Schemes implementation

Loan Agreement

After PF is approved by EIB; the municipality is obliged to submit the originals of the following documents to PMU as the pre-conditions of signing the Loan Agreement:

- Decision of the municipal council for the approval of EIB loan for relevant subproject in the value designated by FMF and stated in the PF.
- Decision on establishment of municipal PIT, apropos appointment of members with the specified names of PIT managers and the member responsible for financial management of subproject implementation in the municipality.
- Official document from the related authority on the development of EIA, i.e. decision of EIA is not required; if possible at that time (otherwise this becomes one of the preconditions for the disbursement of first tranche).
- Statement of Municipality Major that the municipality invested in projects of water supply and sanitation in the last 3 (three) years, for new municipalities in period of last 3 (three) years from applying to the project.

- Statement of Municipality Major that Municipality will during project insure participation of local funds in the amount stated in PF as an on-going financing.
- Statement of Municipal Major that municipality will in period of project implementation insure funds for payment of VAT for the overall value of project – new investment.
- Statement of Municipal Major that municipality will in period of project implementation insure funds for payment of customs or any other expenses that might arise.
- obtained licenses or municipal guarantee that all necessary permits will be timely obtained, including expropriation and land acquisition relations in accordance with valid law if needed for the subproject.
- PF – description of project in the form of the Bank, adopted by PMU and EIB.
- Project Implementation Plan (The informative plan given in the PF and the forecasted detailed plan again attached to the PF).
- Certificate of FMF that municipality as beneficiary of previous credit line properly execute contracted obligations regarding payment of loan as well as obligations determined by Law on debt, borrowing and guarantees in FBiH.

Upon the completion of the above stated documentation, the Head of PMU coordinates the activities with FMF regarding signing Loan Agreements with municipalities, for which the template is given in the On-lending Policy Document and attached to this manual (Annex 1).

Grant Agreement

In order for municipalities to use the grant funds, they should sign Grant Agreement for each individual source of grant funds with the FMF similarly as the case for the EIB loan.

In order for the Municipalities to sign the Grant Agreements, the PMU in coordination with FMF should prepare On-lending Policy for the grant funds to be approved by EIB. The policy document should also include a template for the Grant Agreement which will be used by the municipalities and FMF (Annex 2).

Disbursement

requirements fulfilled

The conditions of disbursement with regard to first tranche are defined in Article 1.04.1 of the Finance Contract, and MFT, Ministry of Justice of BiH, Federal Ministry of Justice, FMAWMF and FMF shall ensure their fulfillment.

With regard to all tranches and requirements set out in Article 1.04(2) of the Finance Contract, the fulfillment of conditions shall be secured by MFT, FMAWMF. The municipalities, FMF and MFT shall secure the fulfillment of requirements concerning the last tranche.



Coordination of the mentioned institutions and all activities ensuring the fulfillment of conditions and required documentation for tranche disbursement shall be carried out by the PMU. The detailed conditions for the disbursement of tranches are to be explained in the Financial Procedures Manual (FPM) which is prepared by the Financial Expert of PMU.

Procurement Procedures

Procurement and contracting activities present one of the most important and critical activities of project implementation. Finance Contract defines that the procedures of procurement shall be implemented in accordance with EIB Procurement Guide and accepted international or national practice. Before initiation of procurement activities, procurement documentation as well as their procedure should be approved by EIB.

With the purpose of easiest and more uniformed procurement implementation, PMU in the cooperation with EIB representatives prepared the Procurement Procedures Guide (PPG) for the Project as well as standard Tender Documents (TD) for the procurement of Works and Services, standard procurement notice template and standard template of notice for local papers and Official Journal of the European Union (OJEU) which are the annexes of the PPG.

After the Municipality has signed the Loan Agreement, it has the following obligations:

- to submit 19 (nineteen) own promissory notes of exchange with no-protest clause and the bill of exchange declaration signed and verified by the competent authority of the Municipality. On the basis of this provision, the Municipality authorizes the Ministry to use the submitted blank bills of exchange for the purpose of paying receivables under the Loan Agreement. In such case, the Ministry shall have the authority to insert in the submitted blank bill of exchange the amount of all receivables due on the day of filling in the bill and maturity date, to address it at its own discretion, to fill in all other missing items, and to submit it for payment, or to use the bill of exchange to carry out all other applicable actions required to pay bills receivable;
- Municipality/PIT will, depending on the procurement plan, perform assessment and request to PMU relating to amount needed for specific tranche;
- With request for specific tranche Municipality is obliged to submit to PMU/FMF evidence that amounts which will be disbursed from credit will be used only in order to realize subproject, in accordance with Finance Contract and On-lending Policy.

In order to start procurement procedure for construction works within municipal scheme sub-projects, the obligation of PIT is to have ready project documentation at the level of main design (reviewed and approved by the designer) and the technical specifications, including the BoQs to form the technical part of the tender documentation. For those municipalities who have been involved in the project preparation facility to be funded from DEU (Section 0), a technical assistance support will be provided for the preparation

of the stated project documentation. Moreover, PIT on behalf of Municipality shall submit to PMU the following documentation:

- copy of the construction permit, as well as all other permits and consents, envisaged by the Law,
- evidence that municipality has resolved legal – property relations for specific subproject.

Procurement preparation includes the following activities:

- During the preparation of PF, the PIT shall in cooperation with PMU define the scheme component for which the implementation needs to be supported with prepared project documentation;
- In accordance with the PPG for the Project, PIT will develop a plan for the preparation of tender documents which needs to be approved by PMU;
- PIT plans and implements the above mentioned activities in accordance with PIP which is submitted for informational purposes as part of the PF, which is a pre-condition for signing Loan Agreement;
- In case changes are required in the detailed PIP attached to the PF including the forecasted information, PIT is obliged to inform PMU and in the coordination with PMU (and TA Consultant) to update detailed PIP;
- For the scheme component for which designs are ready, PIT shall assess in coordination with PMU (and if required support of TA consultant or PPF consultant) whether the designs need updating to achieve the quality required to start preparation of tender documents. Moreover, according to the FBiH Laws, the designs should be approved by a certified company in BiH.
 - If existing designs are dated very old and changes that can significantly affect the contents and scope of project solution given in construction design are likely to arise, the PIT shall plan and initiate activities on updating implementation projects. The revision and approval of the designs should follow the steps explained in Section 0;
 - If existing designs have not passed the process of revision prescribed by FBiH Laws, the PIT shall initiate activities and conduct the revision of the project. The revision and approval of the designs should follow the steps explained in Section 0;
 - If existing designs differs in scope with subcomponent defined in PF, the PIT shall initiate the preparation of materials required for the construction design (BoQ of works, drawings and other) in accordance with the scope of subproject

defined within PF. The revision and approval of the designs should follow the steps explained in Section 0.

Upon the completion of the above mentioned activities, the PIT shall initiate the preparation of technical specifications to be included in TDs in accordance with PPG. Four weeks before the initiation date of procurement and contracting procedures defined in the PIP, the PIT submits to PMU a notice about intention to start the activities. The PIT should report to PMU about intended date of tender publication 15 days (3 weeks) before planned publication as stated in PIP, so that PMU could inform EIB/send Procurement Notice to EIB, at least 10 days before publication, for the international tenders. For the local tenders, the PIT submits to PMU a notice about intended publication date of the tenders. The PIT is fully responsible to prepare the technical specifications, designs and BoQs in coordination with the technical experts of the water agency and with the assistance of the PPF Consultant. If needed, the tendering assistance consultant, in cooperation with PMU and PIT will prepare the whole tender dossier (TD) in accordance with the PPG with the technical input received from the PITs (second box in Figure 6).

PMU should give a positive declaration to TDs prepared to continue implementation. In case of the international tenders, the approved TDs are sent to EIB for approval by PMU along with the procurement notice prepared by PIT and approved by PMU. Regardless of whether the tender is local or international, the TA Consultant (or the tendering assistance consultant) prepares and sends to EIB the Quality Assurance Report (QAR) prepared for TD. The template for the QAR is given in Annex 8.

For the case of international tenders, only after the approval of EIB and for the local tenders after the preparation of the QAR report by the TA Consultant and PMU approval, the TDs are considered as ready for publishing.

Head of PMU informs PIT that the tender documents are approved. Upon EIB's confirmation that procurement notice shall be published in OJEU (if it is international procedure), the procurement expert of PMU checks if PIT has published invitation to bids in local media (second box in Figure 6). The PMU will send to EIB the Procurement Notice (PN) 15 days before planned publishing.

Tender procedure

Subcomponent
implementation
support

Municipality shall be responsible for the implementation of all tender procedures in compliance with relevant regulations, PPG and standard tender documentation for procurement of works and services for the Project, EIB's procurement guide and accepted international or national practice.

During the implementation of tendering procedure the PMU members, TA Consultant, tendering assistance consultant, EIB representatives, EU representatives or other actors in the Project are entitled to be as observers, as required.

During all these steps the Head of PMU should be in coordination and in daily contact with the PIT to inform them from each milestone and if required to get their support. The Evaluation Committee will consist of 5 members, of whom 3 will be nominated by the Municipality and 2 will be nominated by FMAWMF (or by the PMU).

After the evaluation report is approved by PMU and the Mayor of the Municipality (and PMU receives a no objection from the EIB in the case of international tenders), PIT continues with procurement activities and officially informs bidders on its decision.

In case the values of bids are higher than the initial budget defined in the PF, the process will be suspended until PMU in consultation with EIB analyses reasons which lead to such a situation and decide on how procurement process procedure will continue.

Then the PIT, after receiving no-objection from PMU, shall prepare Award Notice which should include the project name and number, the reference for invitation to bids (local or OJEU), the name of the promoter, reference of Finance Contract, the contracted value, contract award date, the number of received bids, the name and address of the selected bidder.

Municipal Mayor, in the name of the Municipality, signs the contract with the successful bidder and sends a copy to PMU.

Contract management

The PIT, specifically the Head of PIT, is responsible for the contract management activities mainly for the works contracts. PMU, through Water Agencies and its procurement and finance expert, will provide assistance to PIT where required.

Supervision over works will be managed centrally.

The financial requests including invoices, disbursement request for tranches will be prepared by PIT together with the centralized supervisor and the final versions should be sent to PMU for approval and further processing (Section 0 and the last box in Figure 6).

4 Lines of Communication

4.1 Communication with external parties

Communication is defined in this manual as any written document, including but not limited to letters, e-mails, notices, faxes, minutes of meetings, delivery of technical documents, contracts and invoices etc., which basically effects or changes the scope, content, budget, time frame, sources, outputs, working schedule and the principles written in this manual or any other management document of the project.

In general, the Head of PMU is the central point for the communication lines being mainly responsible for all communication with external parties including the EIB. The only exception is the communication with EU and other bilateral institutions, for which the responsibility is with EIB.

Communication of particular importance shall be prepared by the Head of PMU and be signed by her/him before being further processed. Where communication with external parties contains items to be approved by the recipient, it shall normally include a clause specifying that unless objections are expressed within a period of 2 weeks from delivery, the subject matter of the communication shall be considered as approved by the recipient, unless there is another limitation contractually for the communication in question. There are four different lines of communication:

- Daily communication;
- Communication and document flows for the technical issues;
- Communication and document flows for the financial issues;
- Communication and document flows for the contractual issues.

4.1.1 Daily communication

Daily communication in the project is more informal communication between and within the parties and can be in written form including e-mails and/or verbal like telephone conversations. With regard to this type of communication few points should be emphasized:

- All the two-way communication with the PITs will either be directly with the Head of PMU or other PMU members for specific subjects;

- Head of PMU is responsible for direct contact with the responsible person in the EIB for the ease of daily communication;
- The TA Consultant in general has a direct contact with the PMU. The Key Expert of the TA Consultant and the Project Manager is allowed to communicate directly with the Head of PMU whereas the other experts of the TA have daily communication with their counterparts in the PMU;
- Head of PMU will be in contact with the Entity to inform the progress in the Project.

4.1.2 Communication for the technical issues

Technical documentation refers to any written document produced for the technical implementation of the project. This includes but not limited to TDs, evaluation reports of the TDs, procurement notice, the background documents for the TDs like feasibility studies, PFs, ToRs for Consultant services, records from commissions for technical inspection, taking over/commissioning etc.

In Figure 7, the communication during the preparation of technical documents is given based on the communication for TDs. It is important to note that this communication lines applies for all other technical documents with some small differences as can be followed from Figure 7. The Head of PMU is responsible to inform the Entity, FMAWMF or FMF as required, about the process and get their comments if required for the document. However, for the ease of implementation and correct information flow, the Head of PMU shall be responsible to get in direct contact with EIB for all technical issues. A substantial part of this responsibility will, however be delegated to the Procurement Expert, insofar as the communication relates to their portfolio.

As can be followed from Figure 7, the first draft of the technical documents is prepared together with the PPF consultant depending on the type of the document by PIT. After that PMU looks at the documents and comments on them till the documents are finalized in accordance with the required quality. During this process, the TA Consultant can contact with the PIT for technical assistance provided. Then for the documents other than the TDs, PIT directly will pass the approved document to the Head of PMU who works with the TA Consultant and exchange comments on the document and after finalization submits it to EIB for the approval.

For the TDs, PIT will pass the approved technical specifications, designs and BoQs prepared by PITs to the tendering assistance consultant (if needed) who will be in charge of assembling the whole document and preparing the final TDs working together with the Procurement Expert in the PMU. After the TDs are finalized they are passed to the Head of PMU (either by the consultant or the Procurement Expert) who also passes those to the TA Consultant and simultaneously submits it to EIB for the approval. As stated in Section 0, the Head of PMU submits the TDs to EIB for approval, together with PN, and

TA submits the prepared QAR to EIB in the same time. The approval for the technical documents is received from EIB directly by the Head of PMU.

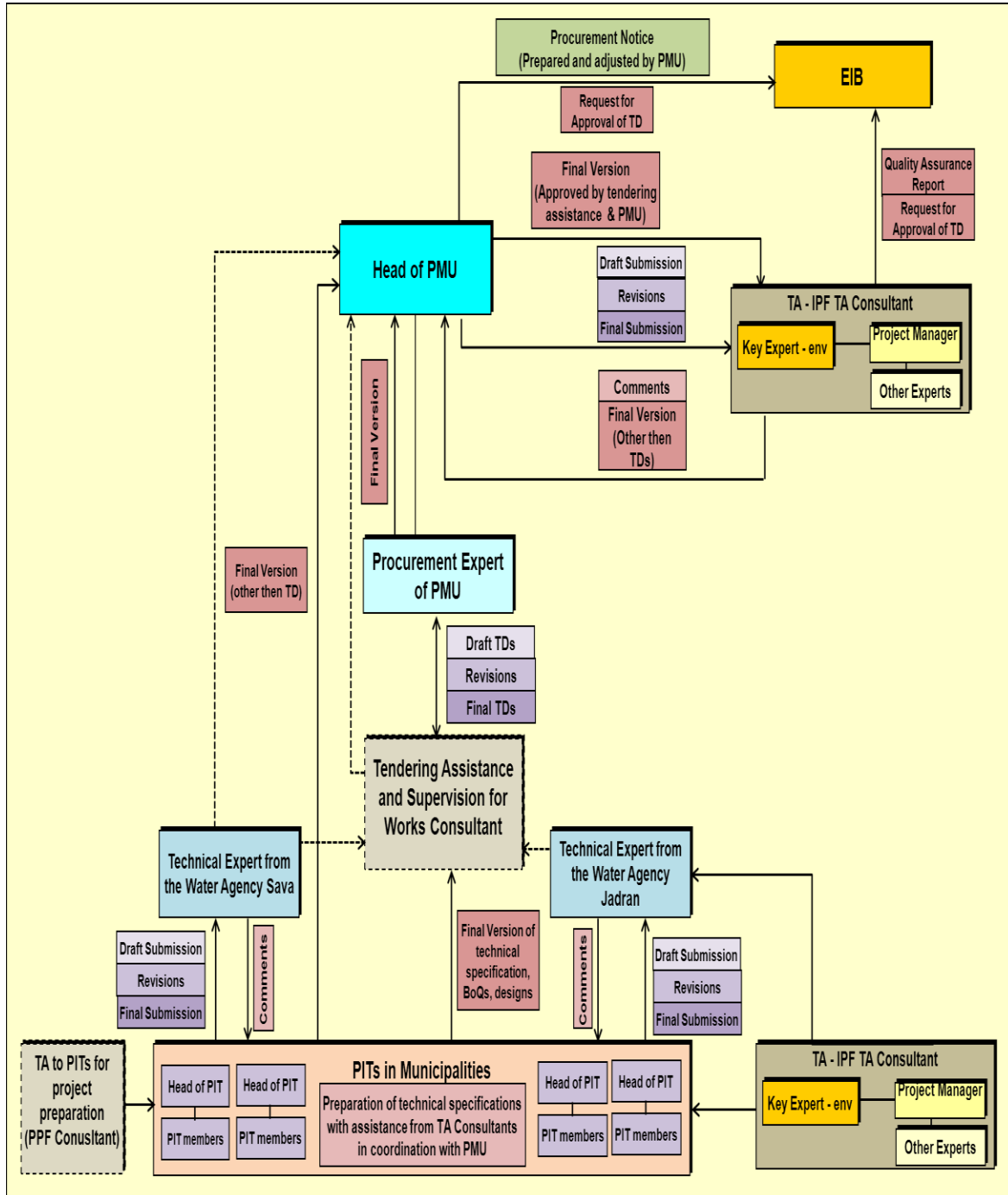


Figure 7 Communication and document flow for the technical issues

4.1.3 Communication for the financial issues

This type of communication covers invoices, disbursement request for the tranche, payment requests and any other transaction involving financial terms.

In general, Head of PMU is the central point for the communication lines, being responsible for all communication with external parties, including the EIB. No communication about the project and/or its activities related to performance, operations and finance shall take place in relation to external parties without approval of PMU Head. The only exception is the communication with EU and other bilateral institutions for which the responsibility is with EIB. A substantial part of this responsibility will, however be delegated to the Financial Expert, insofar as the communication relates to her/his portfolio.

The communication between the PITs and the PMU shows some differences to that explained for the technical documents. PITs will communicate directly with PMU for the financial issues.

The invoices collected from the contractors/consultants by the PIT will be submitted to PMU on monthly basis. After PIT's and Municipal Major's approval of the payment request, the financial documents reach to the Financial Expert in PMU.

After PMU issues the approval for the request from each municipality, they will submit only one request including all the municipalities to FMF for them to pay the invoices directly to the contractors/consultants.

In the meantime the disbursement requests for tranche and grant are collected by PMU from the municipalities and submitted to FMF. The FMF through MFT submits the requests to EIB. The grant request is sent to EU by EIB and the Grant shall be transferred to the Beneficiary's (MFT) bank account that will be notified to the EIB. After EIB ensures that the tranche disbursement request is satisfactory to the conditions of the Finance Contract, the tranche will be released via MFT and FMF. The FMF will make the payments directly to contractors/consultants based on the payment requests received.

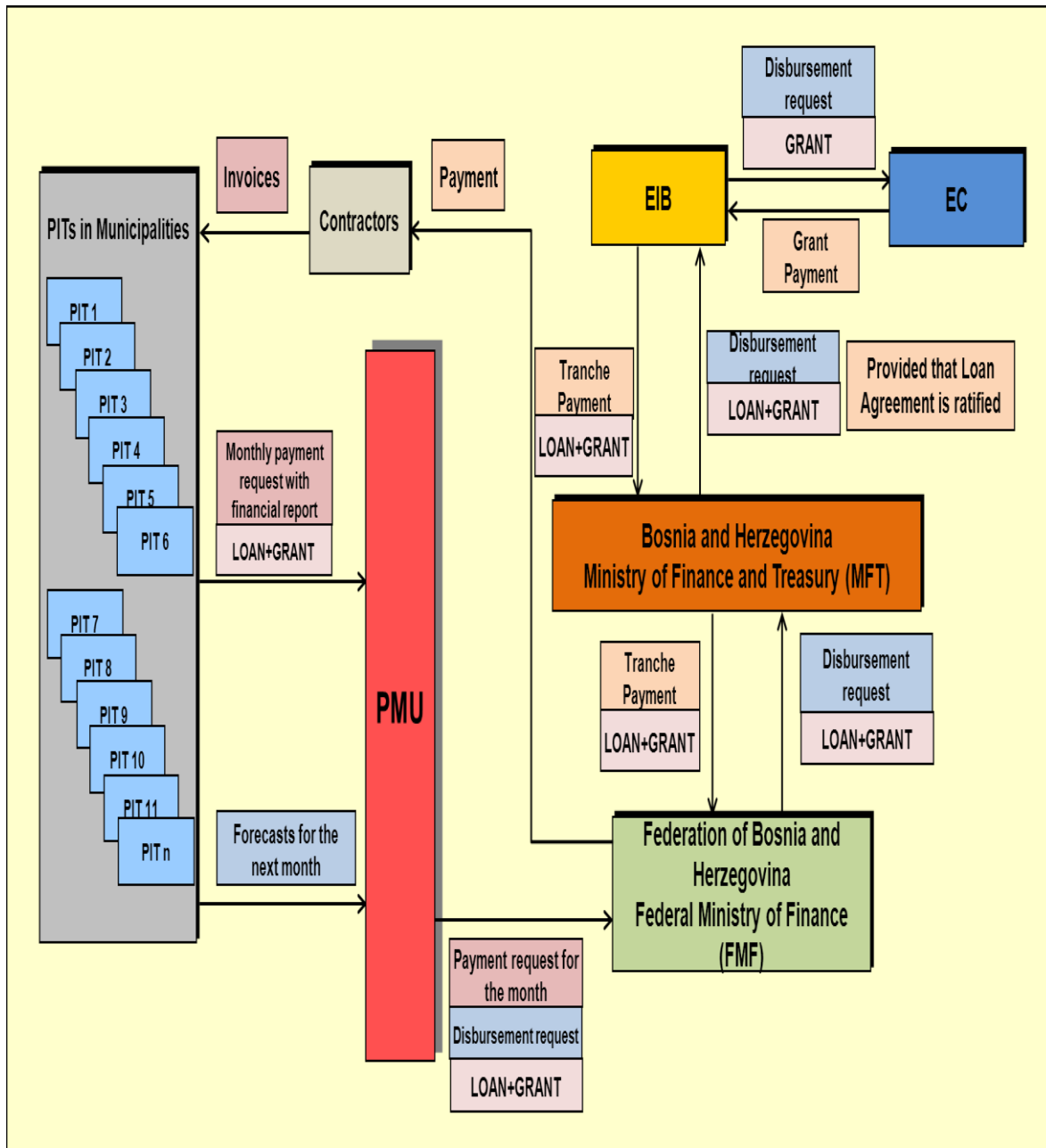


Figure 8 Communication and document flow for the financial issues

4.1.4 Communication for the contractual issues

The communication for the contractual issues involves contracts, contract amendments and the progress reports which are the provisions of Finance Contract and grant agreement. The communication for the contractual issues involves the Head of PMU, the Entity and the Beneficiary.

Only progress reports differ from other documents under this category. Progress reports are submitted to EIB directly by the Head of PMU.

4.2 Regular meetings

4.2.1 Project Steering Committee meetings

The project steering committee will meet every six months or as deemed necessary. The Head of PMU shall attend the meetings of the PSC.

As these are high level meetings for the coordination of all stakeholders, it is recommended that the call for these meetings should better be done by the NIPAC (who is also the Director of Directorate for European Integration) who will also chair the meetings. Before each meeting, the Head of PMU shall prepare an agenda and forward it along with any supporting documents to the members of the PSC, not later than one week before each meeting.

Head of PMU shall also be responsible for preparing and distributing minutes of the meetings of the PSC. The minutes shall be distributed to the members of the committee not later than one week after each meeting.

4.2.2 Project Forum

In order to have a dialogue and direct interaction between all the Municipalities involved in the project, a project forum will be held in Sarajevo every six months.

PMU will organize the venue and the Head of PMU will call and chair the forum. All PMU members are required to participate in the Forum. Moreover, the TA Consultant shall also participate in the forum to assist PMU. The Municipalities should participate in the Forum with at least the Head of PIT or another member or PIT appointed by the Head. The costs for the participation should be covered by the respective municipality.

The Head of PMU will call for the meeting and prepare the agenda and forward it to the PITs. The agenda will include the problems or the critical activities common for all involved municipalities. The forum should better be planned before the PSC meetings. In each forum, one of the municipalities who have shown the best progress in the implementation for the past half year will be awarded. A brief minute will be prepared by the Head of PMU and shall be distributed to the members of the forum not later than one week after each meeting.

4.2.3 PMU meetings

PMU meetings shall be held every week and as required with participation by all PMU members. The meetings serve to inform about activities undertaken by staff members and to plan and co-ordinate future work. In case it is required, the TA Consultant can also be invited to the meeting.

During these meetings, PMU members shall report and discuss about on-going project activities, and problems encountered during implementation. The Head of PMU shall

inform other members about decisions taken at management level and discuss the planning of future activities.

The Administrator shall prepare brief minutes including a list of activities and deadlines with responsibilities assigned to different PMU members. Upon approval by the Head of PMU, the minutes shall be distributed to all members, normally within maximum three days after the meeting.

4.2.4 Coordination meetings

Coordination meetings are held on monthly basis, each first Wednesday in a month. These meetings are attended by the representatives of EIB, DEU, SIDA, FMF, FMAWMF, TA Consultants and PMU. The purpose of Coordination Meetings is to plan and coordinate future activities and to inform about already initiated ones.

4.3 Other communication

Records of other meetings

During the project, other types of meetings will be held apart from those listed above. PMU will conduct regular meetings with the TA Consultant with the minimum participation of Project manager or the deputy Project manager of the Consultant. These meetings should be kept as minimum once in two weeks.

Moreover, before the initiation of a critical activity or if deemed necessary, the PMU upon request from the PITs conducts meetings in groups of adjacent municipalities for dissemination of information and the introduction of the project activity.

If, during such meetings, initiatives or actions are agreed which may have implications for the substance or time plan of the Project, such decisions must be documented in informal records of meetings. Such records shall be copied to the participants in the meeting and to Head of PMU, and they shall be included in the project files.

Records of other communication

If, during telephone conversations etc., initiatives or actions are agreed which may have implications for the substance or time plan of the project, such decisions must be documented in informal records. Such records shall be copied to the other party to the telephone conversation and the Head of PMU, and they shall be included in the project files.

Moreover, e-mail communication which may have implications for the substance or time plan of the Project should be copied to Head of PMU by the project staff that sends/receives the e-mail.

5 Reporting

This section mainly deals with the requirements for reporting which are included in the Finance Contract and the Grant Agreements. The reporting procedures given in this section are applicable for the monitoring reports, which are the essential elements of successful project implementation. The monitoring role of PMU continues till the end of construction works for the subprojects and afterwards the use of assets by the municipalities should also be followed-up by PMU.

The other reports are the technical or financial documents as already explained in the previous sections.

5.1 List of reports

The reporting requirements for the Beneficiary are defined in the Finance Contract and the Grant Agreement. Afterwards, with the Loan contracts and the decisions issued between the Beneficiary and other parties, the responsibilities are transferred to Entity and then to PMU.

The On-Lending Policy documents describe the reporting requirements for both PMU and PITs. Reporting requirements of PMU are given below in a tabular format. PMU will report to EIB. Apart from that, in accordance with the On-Lending Policy, PMU shall also report to the Entity and the Beneficiary. The last column in Table 1 refers to the number of Annexes where the template for the report can be taken.

The reporting requirements for the Grant Agreement refer to the signed contracts. It is assumed that the remaining grant funds will have the same reporting requirements so only one report will be submitted including the information for all the grant funds and project segments.

Table 1 Reporting requirements for PMU

Report	Reporting Period	Submission type	Submitted to	Notes	Template
FINANCE CONTRACT – SPECIFIC REPORTS					
Report on implementation of the Water Law, covering inter alia <ul style="list-style-type: none"> • Description of secondary legislation developed • Definition of cantonal role on the water sector • Effectiveness of enforcement of environmental protection and the water law • Review of public awareness initiatives in relation to water and public health 	No later than two year after the Water Law has come into force	Electronic Paper	EIB	This is a policy report rather than monitoring.	
Mid-term Review	On disbursement bringing total allocation in excess of 50% of the loan amount However, no later than 2 years after loan signature	Electronic Paper	EIB	Being a type of monitoring report, this is different in content (already defined in the Finance Contract) than the regular reports of PMU. For the first part of the report, part of the template in Annex 9 can be used. <ul style="list-style-type: none"> • Overall Progress • Sector Development • Review of effectiveness and efficiency of procedures 	
Draft and final Water Management Strategy			EIB		
Publishing of water service levels and drinking water quality information for involved municipalities in local media	Annual (Latest at the end of the January including the data for the last year)	Electronic	Public by local media and internet	-	-
A regular update of cash-flow projections for municipal service providers along with an annual submission of a list of performance indicators for each Final Beneficiary to be agreed with the Bank.	Annual	Electronic	EIB	The data will be collected from PU via PITs. The list of performance indicators should be agreed on with the Bank.	-
FINANCE CONTRACT - MONITORING					
Project Progress Report	6 monthly 1 May 1 November	Electronic	EIB	The Contract states that they should be submitted latest by 1 March and 1 September. Considering the first one was	Annex 9

Report	Reporting Period	Submission type	Submitted to	Notes	Template
				submitted in May 2011, the rest is arranged accordingly.	
Project Completion Report	6 months after last disbursement	Electronic	EIB	Looking at the required information given in the Contract, the same template can be used.	Annex 9
GRANT AGREEMENT (IPF MW)					
Inception Report	3 months after signature of the agreement Submitted on December 2010	Electronic	EIB	The template attached will be used for the inception reports of the other grant funds.	Annex 9
Progress Reports	Annual At the end of December	Electronic	EIB	The content already given in the grant report but can be amended from time to time in agreement between the Beneficiary and EIB.	Annex 9
Final Report	3 (three) months after the end of the Implementation Period at the latest	Electronic	EIB	In addition to the information outlined for the Progress Reports covering the full Implementation Period, the Final Report shall include a full summary of income and expenditure and payments received for the Project Segment's implementation. The format for Final Report shall be agreed between the Beneficiary and EIB at least 6 months before the end of the Project Segment implementation.	
Additional Progress Reports	Updated at the time of a payment request	Electronic	EIB	These reports are not must and depends on the requirement of EIB.	Annex 9
OTHER					
Project Reports	Quarterly 1 February 1 May 1 August 1 November	Electronic	FMAWMF and FMF, and to the Government of FBiH	Mentioned in the on-lending policy document. And will be prepared according to applicable regulations and instructions.	

Reporting requirements of the PITs in a tabular format are given in the table 2 below. The reporting of the PITs starts after the Loan Agreement is signed with FMF. Considering that the Loan Agreements with municipalities will be done at different times, the starting time for each municipality will be different. For this reason, the reporting times for the PITs are defined based on the reporting requirements of PMU. In this respect, the reports from the PITs serve for two purposes:

- To follow the project schemes in each municipality and be informed about the bottlenecks.
- To provide input for the reporting of PMU to EIB.

It is important to mention that although PITs are responsible for reporting they are conducting this activity in the name of the Municipality. For that reason, the reports should include an approval from the Major before submitted to Head of PMU. The last column in Table 2 refers to the number of Annex where the template for the report can be taken.

Table 2 Reporting requirements for PITs

Report	Reporting Period	Reporting Time	Submission	Notes	Language	Template
First Implementation Report	1 month after the signature of the Loan agreement	At the end of first week	Electronic	Municipalities who have already signed the subsidiary agreement with FMF in 2010 will submit 1 month after the approval of this manual.	Bosnian	Annex 4
Monthly Reports	Every month provided that there is no other report for that month	At the end of first week	Electronic	Required in the on-lending policy. This report mainly includes the invoices received for that month, so it will serve as a payment request for the PIT.	Bosnian	Annex 4
Quarterly Reports	Every three months provided that there is no other report for that month	At the end of first week	Electronic	Similar to the monthly report but includes financial plan update for the next 3 months for the follow-up of tranche requests.	English	Annex 5
Progress Reports	Six monthly	1 April 1 August	Electronic and hard copy	Will be used by PMU to produce the project progress reports to EIB. In that sense, the format will be similar to the format of the PMU reporting.	English	Annex 6
Final Report	1 month after the completion of sub-project	-	Electronic and hard copy		English	Annex 6

5.2 Reporting lines

During the preparation of the monitoring reports, the PMU collects the data from the reporting of the PITs and before official submissions incorporates the concerns and the comments of the Entity (FMAWMF or FMF). The below figure shows the submissions for the monitoring reports:

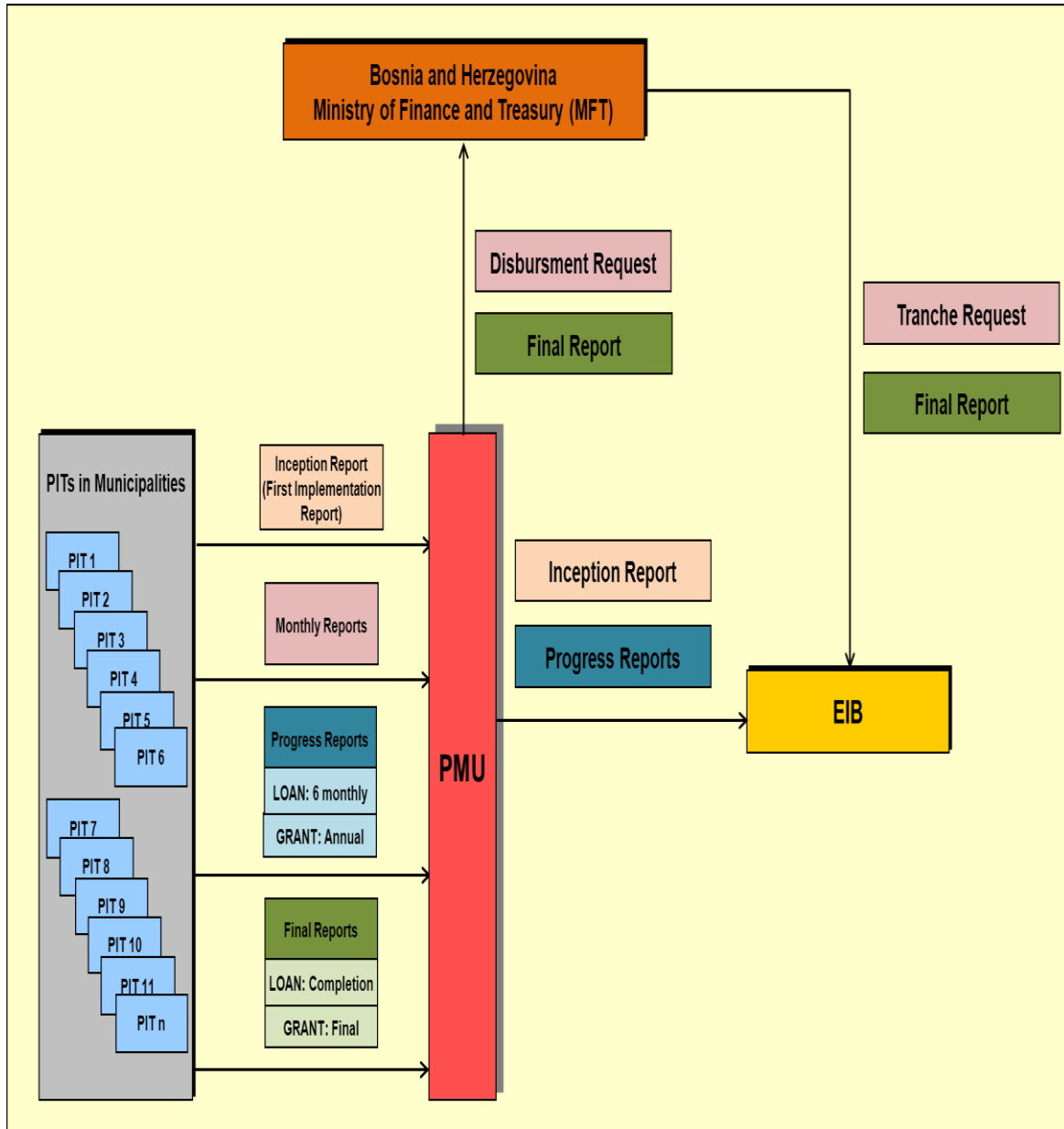


Figure 9 Reporting lines for monitoring reports

PIT reports to PMU in the intervals defined in Section 0. The PMU either reports to the EIB directly or in case of disbursement requests reports to the MFT.

6 System and procedures for filing and documentation

6.1 Document types

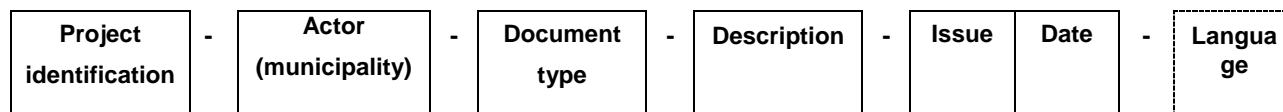
The project produces eight types of documents:

- 1 **Technical documents:** The reports, working papers etc., which constitute the actual outputs of the studies, carried out by the project. These include but not limited to scoping mission report, project fiche, tender documents, tender evaluations etc.
- 2 **Monitoring documents:** The reports produced in order to keep the EIB and PMU informed on project progress. These include: inception report, progress reports and final report.
- 3 **Meeting documents:** Agendas and minutes of meetings, seminars and workshops as well as slide shows and other means of presentation prepared for such meetings.
- 4 **Data:** Project library (electronic), data collected (raw and processed).
- 5 **Project management documents:** Financial reporting, budgets, accounts, contracts and contract amendments, invoices, etc.
- 6 **Communication documents:** Correspondence and mail.
- 7 **Quality management documents:** Project procedure manual and its appendices, audits, documentation of quality assurance etc.
- 8 **Visibility:** Newsletter, press releases, web news.

Format of Documents All documents must be prepared using the project templates available.

6.2 Identification of documents

In order to facilitate easy and unique identification of documents and versions of documents relating to the project, all project staff including those in the municipalities should follow the guidelines specified below when naming documents. The author of a document is responsible for naming it correctly. All documents shall have a file name, which shall be composed as follows:



Project identification	The project identification is WATSAN FBiH (<u>W</u> ater and <u>S</u> anitation Project for the <u>F</u> ederation of <u>B</u> osnia and <u>H</u> erzegovina).
Actor (municipality)	The actor (municipality) code defines which document belongs to which actor (municipality);
PMU	The document produced by PMU or the documents produced for all the municipalities (e.g. templates, manuals, communications etc.)
PIT1	Bosanska Krupa
PIT2	Bosanski Petrovac
PIT3	Široki Brijeg
PIT4	Tomislavgrad
PIT5	Velika Kladuša
PIT6	Orašje
PIT7	Doboj Jug
PIT8	Usora
PIT9	Mostar
PIT10	Prozor-Rama
PIT11	Tešanj
PIT12	Jajce
PIT13	Glamoč
PIT14	Gračanica
PIT15	Kupres
PIT16	Čitluk
PIT17	Konjic

PIT18 Bosansko Grahovo

PIT19 Stolac

PIT20 Lukavac

Document type The document type defines the type of document according to the following system:

TEC Technical reports

MON Monitoring reports

MEET Meeting documents

DATA Data

PM Project management documents

COM Communication documents

QM Quality management documents

VIS Visibility documents

Description After the municipality code follows the description of the document. This should be an intuitive description, which clearly describes the content of the document. When naming consecutive documents, such as progress reports, it is the responsibility of the author to ensure that the individual reports are distinguishable by naming them.

Issue number The issue number shall be recorded in order to distinguish the different versions of the document. Files containing final versions of the documents which are officially submitted are identified by numbers (1, 2, 3...). Before the initial release of a document, the version number is "0". Files containing documents drafted or revised in between the release of different versions are identified by letters added after the version number (0a, 0b, 0c...).

Language Where a document is available in different languages, a language code shall be added:

EN - English
 BH - Bosnian
 CRO - Croatian
 SR - Serbian

Examples of file names

Some examples of file names, assigned following the above specified procedures along with explanations, are given in table 3 below.

Table 3 File naming

Document	Name of the file	Note
Tender document for the construction of main collectors in Tomislavgrad	WSFBiH_PIT4_TEC_TD for main collectors_ver 0a_en	The document has not been officially submitted. Still a working document.
	WSFBiH_PIT4_TEC_TD for main collectors_ver 1_en	The first official submission to PMU
	WSFBiH_PIT4_TEC_TD for main collectors_ver 1_bh	The first official submission to PMU in Bosnian
	WSFBiH_PIT4_TEC_TD for main collectors_ver 1a_bh	The comments are incorporated. Still a working document.
Comments received from EIB for the TDs for the construction of main collectors in Tomislavgrad	WSFBiH_PIT4_COM_EIB_Comments for TD for main collectors_ver 1_en	This is a received document so it is a communication file.
Second monthly report for Usora	WSFBiH_PIT8_MON_Monthly Report 2_ver 1_en WSFBiH_PIT8_MON_Monthly Report 2_Jan 12_ver 1_en	Either can be used.
Third project progress report	WSFBiH_PMU_MON_Proj Progress Report 3_ver 1_en WSFBiH_PMU_MON_Proj Prog Rep 3_May 12_ver 1_en	Either can be used
Cover letter for the submission of third project progress report	WSFBiH_PMU_COM_EBRD_Proj Prog Rep 3_ver 1_en	
PSC Meeting minutes	WSFBiH_PMU_MEET_PSC_MoM Draft _Nov 11_ver 1_en	
Finance Contract	WSFBiH_PMU_PM_Finance Contract_ver 1_en	
Project Procedures Manual	WSFBiH_PMU_QM_PPM Sept 11_ver 1_en	
First tranche request	WSFBiH_PMU_PM_Tranch Req 1_Oct 11_ver 1_en	
Cover letter for first tranche request	WSFBiH_PMU_COM_FMF_Tranch Req 1_Oct 11_ver 1_en	
Cash flow for Mostar	WSFBiH_PIT9_PM_Cash flow forecast_Mar 12_ver 1_bh	

6.3 Registration and distribution of reports and minutes

The status and distribution of technical and monitoring reports as well as minutes shall be recorded by the Administrator in PMU.

This activity should also be conducted in the municipalities by the responsible person appointed by the Head of PIT. The registration should be done by using the document named “Distribution of Reports” given in Annex 7.

6.4 Handling of communication documents

Communication documents comprise correspondence and mail prepared and distributed in connection with the project.

Correspondence

Correspondence is defined as formal written communication with other parties.

Correspondence shall be brief and clear and, unless otherwise specified, be forwarded for the attention of a named person or persons. All correspondence shall be in English and/or BCS (Bosnian, Croatian, Serbian), wherever required by the Contract.

The incoming and outgoing correspondence should be stored electronically. However, the correspondence which includes contractual issues or financial issues should also be stored as hard copy. The Administrator should also record the incoming and outgoing correspondence by numbering them (Annex 8).

Mail

Mail is defined as internal communication documents exchanged between members of the project team (including PITs and PMU members) as well as informal documents between the members of the project team and external parties.

Mail may not directly or indirectly imply a commitment to change any project output or project activity. Mail cannot have any financial implications for the project. All important mails will be copied to the project mailbox which should be stored by the Administrator.

6.5 Handling of visibility documents

Visibility documents will be used to disseminate information about project activities, outputs, etc. to a wide audience. Such documents shall always be approved by the Head of PMU before their release. Visibility documents may be in printed form and/or in the form of information posted on the project web site.

The PMU will prepare a unified header for the official reports, this header will contain symbol of EIB logo. The logo of the other funding institutions shall also be introduced, where available.

6.6 Filing system

The filing system covers digital as well as paper files.

The project file shall contain all types of documents. However, mail is only filed when the initial recipient/sender assesses the mail to be of general interest. The filing system covers digital as well as paper files. The author of a document is responsible for submitting a printed copy as well as a digital copy to the Administrator for filing if required.

The filing key for both paper files and the digital files is given in the filing key in Annex 9.

Backup procedure

The Administrator in PMU and an appointed person by the Head of PIT in municipalities will be responsible for weekly backup. The back-up shall be made on Fridays on a reliable media (e.g. a separate hard disc). The backup copies shall be stored in a safe place outside the project office by the Administrator or Head of PMU/PIT. For the digital files there should be a computer which should be working as a server in order to collect all the documentation in one place for easy backup.

6.7 Project website

A project website shall be established on the Website of the FMAWMF. The website shall be used a communication tool in order to inform and announce:

- General project information
- Summary scheme descriptions
- Tender awards
- Environmental Impact Studies
- Screening decisions regarding EIA
- Non-technical summaries of EIA

The Head of PMU will assign the responsible person for keeping the website up to date. Although the website will be under the control of the PMU, PITs will be responsible to provide the documentation for the website including the tender documents and the announcements and also to follow their publication. It shall be possible to link from EIB's external website to the Project Website.

The website shall enable easy exchange of documents among project staff (as an alternative to large attachments to e-mails)..

7 Financial management

7.1 Sources of project financing

Pursuant to the Finance Contract, FBiH undertakes to implement the Project consisting of investment schemes to be carried out by the municipalities within the FBiH through the FMAWF and FMF using the loan funds in the amount of EUR 60 million and the equal amount of own contribution of the municipalities involved, which according to the Contract total EUR 121.3 million.

Considering that the provision of own funds in the amount of 50% for investment schemes is a difficult requirement to meet by the municipalities, the Delegation of the European Commission in BiH acknowledged the joint approach taken by the NIPAC of BiH, FMAWF, FMF and EIB that this Project should be supported by grants from pre-accession and other funding instruments (IPA, IPF, etc.). The table below shows the structure of sources of support so far secured for the implementation of the Project, whereas the below figure also gives the amount of sector investments.

Table 4 Sources of project financing

Source	Amount (EUR mill.)	%	Status
EIB loan	60.0	49.46	Secured
MW IPF under IPA 2008	5.0	4.12	Signed
IPF 2009	12.0	9.89	Signed
Needed Grant Funds	7.9	6.51	In process
Local contribution and other sources of financing	36.40	30.01	Earmarked
TOATAL	121.3	100	

The Government and the EIB have agreed to take into account on-going investments in the municipal water (supply, treatment and distribution) and wastewater (collection and treatment) infrastructure in the relevant municipalities under the Project, covering the period in last 3 years for municipalities in the phase of inclusion.

7.2 General rules

The financial management of the project will be the responsibility of PMU. The Financial Expert in PMU will play a key role during the management of activities. The financial management includes invoicing of the constructors/ consultants to the PITs, payment requests submitted by PITs to PMU to be compiled and forwarded to FMF for follow up of the payments to the constructors/consultants, preparing disbursement request for loan and grant tranches. The Financial Expert in the PMU will be assisted by the financial expert of the TA Consultant starting from setting up of adequate financial control and monitoring system. A separate Guide (FPM) for the mechanisms of financial transactions is prepared in parallel to PPM. The rules defined in this Manual (PPM) are the administrative processes to be followed rather than the financial actions which are described in detail within Financial Procedures Manual (FPM).

Although all the disbursement requests for tranches and grants are initiated by PMU towards FMF through MFT, as for the loan repayment, it will be done by FMF and PMU will not be involved in that activity at all.

Loan funds under the Contract shall be used for financing of various activities related to the implementation of schemes in municipalities, to be defined in Project description broken down by technical components in each individual subsidiary agreement, such as:

- Development of studies (feasibility study, environmental impact assessment), preliminary designs and/or main designs;
- Reconstruction and rehabilitation, upgrading of existing or construction of new facilities in:
 - water resource infrastructure,
 - water supply systems,
 - drinking water treatment facilities,
 - wastewater collection systems,
 - wastewater treatment plants,
 - bulk or consumer water metering.
- Measures to increase efficiency, reduction of losses, water and energy savings;

- Supervision;
- Technical assistance.

The custom duties, taxes and fees as well as expropriation and property issues shall not be covered by loan proceeds.

Grant Scheme

As a general rule for financing the sub-projects it was agreed with EIB that each municipality will be financed from the maximum of two sources of EU grant funds out of the 3 available so far. The general grant scheme that will be applied for the project is given in Figure 0. The grant funds will not be used for the service contracts (supervision and design) but will be used for the works. As already stated in the grant agreement, the Grant shall not be used for financing of taxes, duties and charges arising out of, or in connection with, the implementation of the Project Segment.



Figure 10 Grant Scheme of the Project

The grant allocation has been approved (IPF MW, IPA 2009) based on the principle along which the value of grant funds that will be allocated for each municipality should be in percentage of the allocated amount of the loan, regardless of the grant funds' source.

Each municipality can receive grant funds from maximum two EU grant sources. The grant amount which can be allocated for a municipality will be calculated based on the following formula:

$$\left(\frac{25 - \left(\frac{1.25}{100} \right) \times 25}{60} \right) \times \text{Municipality Loan Amount}$$

Each grant amount will be provided to municipality by the Head of PMU, in line with the above formula. Possible other grants will be decided in line with Donor's procedures.

Sub-project budget

The initial sub-project budget is defined by value of works estimated in PF. This value cannot be changed without an amendment to PF and approval of EIB.

Actual sub-project budget is defined by contracted value of works. The value of actual budget can be, in case it is necessary for sub-project implementation, or as a consequence of force measure which caused surplus and underestimated works, increased maximum up to the value of initial budget.

If, upon completion of works the actual budget is less than the initial budget, PMU shall in coordination with PIT and consultations with EIB consider purpose and usage possibilities of these funds.

It is also the responsibility of PMU to follow the estimated costs for each project segment versus the actual expenditures.

7.3 Project implementation

The Finance Contract and the Grant Agreements are the main documents describing the conditions for the finance of the project. The EIB loan will be disbursed in up to twenty tranches based on the disbursement requests (Annex 10) send by PMU through the Entity and the Borrower. The MFT will on behalf of the Federation of Bosnia and Herzegovina open a special account for this Project for the disbursement of loan funds in tranches. Submission of a request for disbursement of tranches shall include the following:

- On the basis of the projected funding needs of the PITs, PMU will estimate funds needed for each tranche, and send the disbursement request accompanied by the documentation as required under the Contract to FMF;

- Request for transfer of funds to the special account of the Project shall be submitted to the EIB by the MFT upon request by the FMF for disbursement of the tranche concerned;
- Funds from the special account will be disbursed on the basis of a request to be signed by the authorized persons of the FMF and the FMAWMF.

The conditions of disbursement with regard to the first tranche are defined in Article 1.04.1 of the Finance Contract, and MFT, Ministry of Justice of BiH, Federal Ministry of Justice, FMAWMF and FMF shall ensure their fulfillment.

With regard to all tranches and requirements set out in Article 1.04(2) of the Finance Contract, the fulfillment of conditions shall be secured by MFT, FMF and FMAWMF. The municipalities, FMF and MFT shall secure the fulfillment of requirements concerning the last tranche.

Coordination of the mentioned institutions and all activities ensuring the fulfillment of conditions and required documentation for tranche disbursement shall be carried out by the PMU.

In line with the above mentioned, the PMU, on the basis of the information provided by the Final Beneficiaries (municipalities and PITs), shall prepare the required documentation in timely manner before the disbursement request.

When documentation is provided and conditions for disbursement of each tranche are met, disbursement request is made by the FMF through the MFT, following the established procedure. Loan proceeds under the same terms and conditions shall be transferred without any surcharge to the municipalities included in the Project which have signed Loan Agreements with FMF. The FMF shall transfer all financial expenses related to the loan to the Municipalities, in proportion to their contribution to the expenses concerned.

7.4 Conditions for approval of funds disbursement

Payment for completed works shall be subject to approval of PMU. For all types of procurement, the PMU should have received from each municipality, the Statement of the Municipality concerned on taking the responsibility for the execution of all tender procedures in accordance with relevant regulations, delivered to PMU accompanied by all required documentation relating to the procedure of procurement of services which are subject of the mentioned subcontract. Responsible persons within the municipal PITs verify the received documentation - reports for temporary / final situations (designer/contractor/ consultant) - and send it to the PMU, in line with the Agreement between the municipality and the Contractor. The PMU prepares a request for payment from the special account and such request, signed by the authorized person in FMAWMF, submits to the authorized person in FMF for signing. The FMF then gives

the payment instruction to the bank where the special account is open. Payments from special account will be made directly to accounts of designer/ contractor/consultant for completed tasks. Municipalities are obliged to provide funds for VAT.

7.4.1 Consultancy services

Payment for completed works shall be subject to approval of PMU having received by the municipality concerned the contract signed between the municipality concerned and designer/consultant (subcontract) accompanied by the following documentation:

- On-lending of funds for consultancy services shall be subject to submission of a payment request signed by authorized persons from FMAWMF and FMF accompanied by the consultant confirmation for the temporary/finished works and report made in line with payment conditions defined in the subcontract, verified by the Municipality (PIT).

7.4.2 Works

Payment for completed works shall be subject to PMU having received by the municipality concerned the contract signed between the municipality concerned and contractor (subcontract) accompanied by the following documentation:

- On-lending of funds for contractors shall be subject to submission of a payment request signed by authorized persons from FMAWMF and FMF and accompanied by:
 - monthly situations of executed works verified by the centralized supervision consultant appointed by the PMU, head of scheme, mayor, head of PIT;
 - in case of advance payment, the contractor agreement serves as the basis for payment.

Advance payment

In compliance with “contract for construction works”, PIT submits request for advance payment to PMU, with the following supporting documents:

- Advance payment invoice submitted by contractor, checked and signed by Head of PIT;
- Sub-project financial plan in compliance with PIP from which it can clearly be seen from which source of funding payment is made;
- Tender guarantee for advance payment in line with Contract conditions;
- Proof of VAT payment on the contractors account by the municipality.

Upon reception of advance payment request, PMU Financial Expert reviews submitted request and upon her/his review she/he submits it to Head of PMU for verification and signature. Upon the Head of PMU signature the payment request is sent to FMF.

Initiation of works

When contractor fulfills all conditions defined in his contract and when supervising engineer verifies it, Head of PIT shall officially inform PMU about initiation of works, and submit 2 (two) copies of documentation that contractor should submit in compliance with his contract (Bank guarantee for good works execution and other).

Payment of implemented works (situations)

In accordance with works progress, the contractor shall maximum once a month submit invoice for implemented works (situation).

Upon works verification and its submission together with the report of supervising engineer to PIT, PIT reviews and validates submitted situation. Depending on the financial plan of sub-project and consulting to PMU Financial Expert (if needed), PIT prepares “payment request” for situation (works) and defines source of funding and value. The PIT also issues a request to municipality for VAT payment in line with submitted situation, and issues payment request from municipal budget in case the component is co-financed from municipal current funds.

Upon the payments made by municipality, Head of PIT submits to PMU the following:

- 2 (two) original situations verified by “supervising engineer” and himself, Head of Project and mayor,
- Works progress report,
- Situation payment request with listed amounts and source of funding,
- Proofs that municipality has done its obligations (VAT payment and part from own funds, if exists).

Financial Expert of PMU conducts final check of documentation completeness and sends to Head of PMU for verification and signature. Upon the signature of the Head of PMU the payment request is send to FMF for payment. After the payments are made, PMU Financial expert shall submit proofs of payment to Head of PIT.

Variation order (surplus and underestimated works)

In case the supervising engineer concludes that implementation works in the field differ from the contract, which as a consequence has surplus of works defined by contract, i.e. works not defined in contract, and mistake of contractor did not cause it, process of defining of works surplus and additional works will be initiated.

Upon PIT approval, in cooperation with the contractor, supervising engineer shall prepare a variation order, in which reasons for surplus and underestimated works with the need for their implementation shall be explained, and BoQ and price defined.

In such a manner, prepared variation order shall be submitted to PMU Procurement Expert for the final approval. Once the PMU approves variation order, PMU Procurement Expert shall instruct Head of PIT on contract change manner, in case there is a need for that, or if there is no need he/she shall provide instruction on variation order acceptance.

7.4.3 Supervision

Payment for completed works shall be subject to PMU having received by the tendering assistance (if needed) and works supervision consultant monthly payment requests based on his monthly timesheets, the contract signed between the municipality concerned and supervisor (subcontract) accompanied by the following documentation:

- On-lending of funds for supervision shall be subject to submission of a payment request signed by authorized persons from FMAWMF and FMF and accompanied by the temporary/final situation and report signed by the Municipality, head of scheme, mayor, head of PIT and confirmed by the PMU.

8 Quality management

8.1 Planning of Quality Assurance activities

Basically, all official project reports and technical documents prepared in the course of the project shall be reviewed by a person appointed to perform quality assurance. Preferably, the review shall take place before local approval is obtained. However, flexibility in the timing of quality assurance checks is necessary, taking into account the nature of the project. The Head of PMU shall make sure that all documents needed for quality assurance activities are made available in timely manner.

However, quality assurance is not necessarily limited to the checking of already prepared documents, but may also include **proactive involvement** of quality assurance experts, prior to and during to the execution of tasks.

The documents prepared in the PITs are assured by the experts appointed by the municipality. The documents received by PMU from the PITs are assumed to be quality assured.

The author of the document is responsible to ensure that the document is prepared by using the standard templates, the information given are relevant, the language used is not “poor” and all references to figures and tables are adequate and correct.

The TA Consultant is already conducting a process of quality assurance for the TDs for which the template has already been given in Annex 8.

Annex 1: List of issues

Annex 2: List of relevant documents related to the implementation of schemes

Annex 3: List of the parties involved including the nominated names

Annex 4: Project Fiche template

Annex 5: Implementation Plan template

Annex 1: Loan Agreement template

Annex 2: Grant Agreement template

Annex 8: Template of the Quality Assurance Report for tender documents

Annex 3: Progress Report template for PMU

Annex 4: Monthly Report template for PIT

Annex 5: Quarterly Report template for PIT

Annex 6: Progress Report template for PIT

Annex 7: Distribution of reports

Annex 8: Recording correspondence

Annex 9: Filing keys

Annex 10: Form of disbursement request