

Report on the Republika Srpska part of the Project
Financial Statements of the
REPUBLIKA SRPSKA RAILWAYS
RESTRUCTURING PROJECT

of the Ministry of Finance and Treasury of Bosnia and
Herzegovina

Financed by:
- IBRD Loan No. 8808 – BA
For the year ended 31 December 2020

**REPUBLIKA SRPSKA RAILWAYS RESTRUCTURING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

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REPUBLIKA SRPSKA RAILWAYS RESTRUCTURING PROJECT

of the Ministry of Finance and Treasury of Bosnia and Herzegovina

1. Introduction

1.1 Objectives of the Project

The objective of the Project is to improve the operational efficiency and financial sustainability of the railways in the Republika Srpska.

1.2 Components and activities of the Project

The Project consists of the following parts

Part 1. Financial Restructuring

Financing the ŽRS Eligible Expenditure Program to support: (a) the clearing of Arrears; and (b) the debt to equity conversion of ŽRS' Debt.

Part 2. Workforce Restructuring

Financing the ZRS Eligible Expenditure Program to support: (a) compensation packages to retrenched workers; and (b) training and counseling to retrenched workers.

Part 3. Organizational Restructuring

1. Financing the ŽRS Eligible Expenditure Program to support:

(a) the organizational restructuring of ŽRS; and

(b) providing ŽRS with appropriate mechanisms to support its long term financial sustainability and harmonize its organizational structure with the EU Railway Acquis, all through:

- (i) the design and implementation of the new ŽRS organizational structure;
- (ii) the development and implementation of a financial accounting system and a human resources management system;
- (iii) the development and implementation of: (i) a railway infrastructure asset management system; and (ii) a rail operations asset management system;
- (iv) the development of a commercially-driven, financially attainable and sustainable medium term business plan;
- (v) the development, execution and implementation of a multi-annual PSO between ŽRS and the Republika Srpska;
- (vi) the development, execution and implementation of a Multi-Annual Infrastructure Contract between ŽRS and the Republika Srpska; and
- (vii) the carrying out of capacity building activities to staff in the railways sector to support organizational change.

(c) project management activities, including: (i) the carrying out of Project audits; (ii) the monitoring and evaluation activities under the Project; (iii) the carrying out of financial and procurement management under the Project.

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1. Introduction (continued)

1.3 Financing of the Project

The State of Bosnia and Herzegovina ("B&H") is the recipient of funds made available by International Bank for Reconstruction and Development, in the form of a Loan No. 8808 - BA amounting to the equivalent of EUR 51,300,000.

Without limitation upon the provisions of Article II of the General Conditions¹ and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to (a) finance Eligible Expenditures; and (b) pay: (i) the Front-end Fee; and (ii) each Interest Rate Cap or Interest Rate Collar premium in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Loan allocated (in EUR)	% of expenditure to be financed
(1) ŽRS Eligible Expenditure Program	51,171,750	100%
(2) Front-end fee	128,250	Amount payable pursuant to Section 2.03 of the Agreement
(3) Interest Rate Cap or Interest Rate Collar premium	-	Amount due pursuant to Section 4.05 (c) of the General Conditions
Subtotal		51,300,000

Planned closing date of the Project is 31 December 2021.

Withdrawal Conditions and period

Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed EUR 10,000,000 may be made for payments made prior to this date but on or after twelve months prior to the Signature Date, for Eligible Expenditures.

The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date ("Instalment Share").

Principal Payment Date	Instalment Share
On each 15 May and 15 November	
Beginning 15 May 2025 through 15 November 2049	2%

¹ International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing, dated 14 July 2017

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1. Introduction (continued)

1.3 Financing of the Project (continued)

Disbursement – Linked Indicators for Category (1)

Disbursement	Linked Indicator	Description	Disbursement Linked Results	Amount of the the Loan (in EUR)	Amount of the Loan Allocated (in EUR)
DLI1: Financial Restructuring	DLR1.1 (a): ŽRS restructuring plan has been approved by the RS	18,000,000	DLR 1.1(a): 1,000,000		
	DLR 1.1 (b): Arrears paid for 500 ŽRS workers		DLR 1.1 (b): 400,000 for Arrears paid for each group of 100 workers, up to an amount of 2,000,000.		
	DLR 1.2: Arrears paid for the remaining 2,598 RS workers, for a total of 3,098 workers.		DLR 1.2: 1,200,000 Arrears paid for each group of 260 workers, up to an amount of 12,000,000.		
	DLR 1.3: More than 90% of ŽRS' capital is owned by RS, as evidenced by a registry certificate issued by the Banja Luka Stock Exchange		DLR 1.3: 3,000,000		
DLI2: Operational efficiency improved	DLR 2.1: Retrenchment Plans have been implemented, or voluntary separation or retirement have taken place for 500 ŽRS workers	13,000,000	DLR2.1: 400,000 per Retrenchment Plans that have been implemented, or voluntary separation or retirement that have taken place for each group of 100 workers, up to 2,000,000		
	DLR 2.2: Retrenchment Plans have been implemented, or voluntary separation or retirement have taken place for an additional 200 ŽRS workers, for a total of 700 ŽRS workers.		DLR2.2: 2,500,000 per Retrenchment Plans that have been implemented, or voluntary separation or retirement that have taken place for each group of 100 workers, up to 5,000,000		

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<p>DLR2.3: Retrenchment Plans have been implemented, or voluntary separation of retirement have taken place for the remaining 300 ŽRS worker, for a total of 1000 workers</p> <p>DLI3: DLR3.1(a): Consultants selected for (a) the implementation carrying out of (i) a regulatory and functional review of the railways; and (ii) a organizational proposal for ŽRS' reorganization; and (b) restructuring the design of (i) management and financial systems; and (ii) an asset management system</p> <p>DLR3.1(b): Consultants selected for the preparation of (a) ŽRS' business plans for operations, infrastructure and workshops; and (b) the design of: (i) model contracts for PSO, TAC, MAIC, and (ii) Performance Contracts</p> <p>DLR3.2(a): Draft reports completed on the consultancies referred to in DLR3.1(a) above</p> <p>DLR3.2(b) Draft reports completed on the consultancies referred to in DLR3.1(b) above</p> <p>DLR3.3 (a): Implementation of the regulatory and functional review recommendations identified by the consulting services set forth in DLR 3.1(a)</p> <p>DLR3.3 (b): new ŽRS' organization structure, including separate management and accounting of operations and infrastructure, in place, as evidenced by an RS letter to the Bank</p> <p>DLR3.3 (c): PSO, TAC, MAIC and Performance Contracts signed by the respective parties thereto</p> <p>DLR3.3 (d): asset management plans in</p>	<p>DLR2.3: 2,000,000 per Retrenchment Plans that have been implemented, or voluntary separation or retirement that have taken place for each group of 100 workers, up to 6,000,000</p> <p>DLR 3.1(a): 1,000,000</p> <p>DLR3.1(b): 1,000,000</p> <p>DLR3.2(a): 1,500,000</p> <p>DLR3.2(b): 1,500,000</p> <p>DLR3.3 (a): 1,000,000</p> <p>DLR3.3 (b): 1,000,000</p> <p>DLR3.3 (c): 1,000,000</p>
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place, as evidenced by report on asset conditions generated by the asset management system	DLR3.3 (d): 1,000,000
DLR3.3 (e): ŽRS' business plans for operations, infrastructure and workshops approved by its board	DLR3.3 (e): 1,000,000
DLR3.3 (f): Financial accounting system and a human resources management system acquired	DLR3.3 (f): 1,000,000
DLR3.4 (a): Financial accounting system and a human resources management system installed and fully functional	DLR3.4 (a): 2,000,000
DLR3.4 (b): The PSO and MAIC are fully funded, as evidenced by the RS' confirmation of financial commitments	DLR3.4 (b): 3,000,000
DLR3.4 (c): PSO and MAIC reviewed and, if required, updated after their first year of implementation	DLR3.4 (c): 3,000,000
DLR3.4 (d): Approved ŽRS' business plans for operations infrastructure and workshops reviewed and, if required, updated after their first year of implementation	DLR3.4 (d): 1,171,750

Subtotal **51,171,750**

Baker Tilly Re Opinion d.o.o.

Grbavička 4

71000 Sarajevo

Bosna i Hercegovina

2. Independent Auditor's Report

To the State of Bosnia and Herzegovina,
Ministry of Finance and Treasury
Attn. of Minister of Finance and Treasury H.E. Mr. Vjekoslav Bevanda

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Report on the Project Financial Statements

Opinion

We have audited the accompanying project financial statements of the Republika Srpska part of the Republika Srpska Railways Restructuring Project (the "Project"), which comprise of Summary of sources and uses of funds, Balance sheet, Designated account, Statement of loan withdrawals as of and for the year ended 31 December 2020, and a summary of significant accounting policies and other explanatory notes for the year then ended, financed under IBRD Loan No. 8808 - BA.

In our opinion, the accompanying project financial statements present fairly, in all material aspects, the financial position of the Project as of 31 December 2020, and of the funds received and disbursed during the year then ended, in accordance with the cash basis of accounting based on International Public Sector Accounting Standard ("IPSAS"), as described in Note 4.1.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). In conducting audit we were also guided by the Bank's financial reporting and auditing requirements, Disbursement Guidelines for Investment Project Financing, the Loan Handbook for World Bank Borrowers and the World Bank's Procurement Framework. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Ministry of Finance and Treasury in accordance with the International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Project Financial Statements

Project implementation and management unit (PIMT) with support of ŽRS Accounting Department is responsible for the preparation of these project financial statements in accordance with the cash basis of accounting based on IPSAS, as described in Note 4.1., and for such internal control as Head of PIMT determines is necessary to enable the preparation of project financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, PIMT is responsible for assessing the Project's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Project or to cease operations or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the financial reporting process.

Responsibilities for the Audit of Financial Statements

Our objectives are to obtain reasonable assurance about whether the project financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the project financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Project's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by ŽRS and/or PIMT.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Project's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Project to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the project financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other requirements

In addition, with respect to the Statement of Expenditure, adequate documentation supporting Disbursement Linked indicators or Performance Based Conditions and underlying expenditures have been maintained to support claims for reimbursements of expenditure occurred, and such expenditures were eligible and incurred for the purpose intended under the project. Also, respective reports issued during the period were in agreement with the underlying books of account.

Signed on behalf of Baker Tilly Re Opinion d.o.o. Sarajevo


Nihad Fejzić, Director and Certified auditor

Sarajevo, Bosnia and Herzegovina
5 April 2021




Ezita Imamović

Ezita Imamović, Certified Auditor

**REPUBLIKA SRPSKA RAILWAYS RESTRUCTURING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**
Project financial statements for the year ended 31 December 2018

(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2020

3.1 Summary of sources and uses of funds under the Loan No. 8808 – BA

	Actual 2020	Cumulative 2020	Cumulative 2019	Cumulative budget	Cumulative variance
FINANCING					
Loan No. 8808 - BA	6,900,000	42,400,000	35,500,000	51,171,750	8,711,750
Direct payments	-	128,250	128,250	128,250	-
TOTAL FINANCING	6,900,000	42,528,250	35,628,250	51,300,000	8,771,750
PROJECT EXPENDITURE					
<i>By Category</i>					
ŽRS Eligible expenditure program	2,767,033	35,392,178	32,625,145	51,171,750	15,779,572
Front - end fee (from direct payments)	-	128,250	128,250	128,250	-
TOTAL EXPENDITURE	2,767,033	35,520,428	32,753,395	51,300,000	15,779,572
PROJECT EXPENDITURE					
<i>DLI based categories</i>					
DLR 1				18,000,000	
DLR 1.1	-	2,539,481	2,539,481		
DLR 1.2	2,144,657	32,097,073	29,952,416		
DLR 1.3	-	-	-		
DLR 2	-	-	-	13,000,000	
DLR 2.1	-	-	-		
DLR 2.2	319,623	408,550	88,927		
DLR 2.3	-	-	-		
DLR 3	302,753	347,074	44,321	20,171,750	
DLR 3.1	-	-	-		
DLR 3.2	-	-	-		
DLR 3.3	-	-	-		
DLR 3.4	-	-	-		
Front – end fee (from direct payments)	-	128,250	128,250	128,250	
TOTAL EXPENDITURE	2,767,033	35,520,428	32,753,395	51,300,000	15,779,572

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Project financial statements for the year ended 31 December 2018

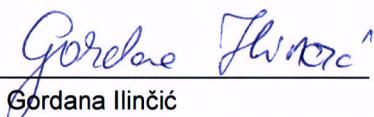
(all amounts in EUR, unless otherwise stated)

3. Project financial statements for the year 2020 (continued)

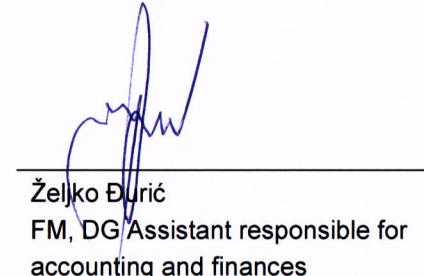
3.2 Balance sheet as of 31 December 2020 showing accumulated funds of the Project and bank balances concerning World Bank funding

	31 December 2020	31 December 2019
ASSETS		
Project expenditure under Loan No. 8808 – BA	35,392,178	32,625,145
Front - end fee	128,250	128,250
	35,520,428	32,753,395
Designated account – Loan No. 8808 - BA	-	-
Designated sub-account – Loan No. 8808 – BA*	7,007,822	2,874,855
Total assets	42,528,250	35,628,250
LIABILITIES		
IBRD Loan No. 8808 – BA (including front-end fee)	42,528,250	35,628,250
Total liabilities	42,528,250	35,628,250

Signed and authorised by:


Gordana Ilinčić

Head of PIMT


Željko Đurić
FM, DG Assistant responsible for
accounting and finances

Doboj, 5 April 2021

**REPUBLIKA SRPSKA RAILWAYS RESTRUCTURING PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina
Project financial statements for the year ended 31 December 2018**

(all amounts in EUR, unless otherwise stated)

4. Notes to the project financial statements

4.1 Basis of preparation and accounting records

These project financial statements have been prepared in accordance with the International Public Sector Accounting Standard: "Financial Reporting under the Cash Basis of Accounting" issued by the Public Sector Committee of the International Federation of Accountants, and incorporate the accounting policies below, which have been consistently followed in all material respects and comply with the "Guidelines: Annual Financial Reporting and Auditing for World Bank – Financed Activities", issued by the Financial Management Sector Board.

4.2 Accounting policies

The Project's fiscal year is 1 January to 31 December for the recording of all transactions.

Cash basis of accounting

All receipts and expenses under IBRD Loan are recorded on actual receipt and payment basis of accounting as per approved categories.

Project expenditure is stated at original cost on the balance sheet.

Direct payments

Direct payments concern the amounts paid directly from the credit account of the World Bank.

Statement of Expenditure (SoE)

Statements of Expenditure are used to state the expenditure under IBRD Loan during a certain period. These statements are sent to the World Bank's disbursement specialist who authorises the payment of the expenditure through the Designated account.

Currency conversions

The reporting currency is EUR. Sources and use of funds (payments to workers, institutions, suppliers and contractors, as case may be) in currencies other than EUR have been converted to EUR using the currency rate at the moment of the transaction.

Bank balances, recorded on the balance sheet at year-end, have been converted at year-end rate.

Designated account

This is the total amount of the withdrawals from the Credit account for the Project. The Credit account is in EUR.

Interest on Designated account

Interest earned on the Designated account belongs to the Borrower.

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Project financial statements for the year ended 31 December 2018

(all amounts in EUR, unless otherwise stated)

APPENDIX A.1

DESIGNATED ACCOUNT STATEMENT

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina

Account No.: 5672410000805254

Depository Bank: Sberbank a.d. Banja Luka

Address: Jevrejska 71, Banja Luka

Related Credit: Loan No. 8808 – BA

Currency: EUR

	EUR
Opening balance 1 January 2020	2,874,855
Add:	
World Bank replenishments	6,900,000
Subtotal	6,900,000
 Deduct:	
Transfer on designed sub – account	9,774,855
Subtotal	9,774,855
 Ending balance 31 December 2020	 -

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Project financial statements for the year ended 31 December 2018

(all amounts in EUR, unless otherwise stated)

APPENDIX A.2

DESIGNATED SUB- ACCOUNT STATEMENT

Account owned by: Ministry of Finance and Treasury of Bosnia and Herzegovina
Account No.: 5672410000805254
Depository Bank: Sberbank a.d. Banja Luka
Address: Jevrejska 71, Banja Luka
Related Credit: Loan No. 8808 – BA
Currency: BAM

	EUR
Opening balance 1 January 2020	-
Add:	
World Bank replenishments - transfer from designated account	9,774,855
Subtotal	<u>9,774,855</u>
 Deduct:	
Amount of eligible expenditures paid during the period	2,767,033
Subtotal	<u>2,767,033</u>
 Ending balance 31 December 2020	7,007,822

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Project financial statements for the year ended 31 December 2018

(all amounts in EUR, unless otherwise stated)

APPENDIX B SoE Withdrawal Schedule of IBRD Loan No. 8808 – BA

	Initial deposit	ŽRS Eligible expenditure program	Front – end fee	Total application	Total replenished
Previous period	-	-	-	-	-
Application 1	-	26,414,554		26,414,554	26,500,000
Front – end fee	-	-	128,250	128,250	128,250
Total 2018		26,414,554	128,250	26,542,804	26,628,250
Application 2	-	6,210,591	-	6,210,591	9,000,000
Total 2019	-	6,210,591	-	6,210,591	9,000,000
Application 3	-	2,767,033	-	2,767,033	6,900,000
Total 2020		2,767,033		2,767,033	6,900,000
Cumulative 2020		35,392,178	128,250	35,520,428	42,528,250

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(all amounts in EUR, unless otherwise stated)

APPENDIX C Reconciliation between World Bank's disbursement statements in EUR
and Credit account in EUR according to the balance sheet; SoE
Withdrawal Schedule of Loan No. 8808 – BA

	Changes in
	Loan No. 8808- BA
	(in EUR)
Original amount	51,300,000
Disbursed in previous years	26,500,000
Front-end fee	128,250
Total disbursed in 2018	26,628,250
Disbursed in 2019	9,000,000
Disbursed in 2020	6,900,000
Cumulative disbursements	42,528,250
Calculated undisbursed balance as of 31 December 2020	8,771,750
Undisbursed balance as per World Bank Summary for December 2020	8,771,750
Difference	-