

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 2023

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

- i. 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 ŽRS Eligible Expenditure Program to support: (a) compensation packages to retrenched workers; and (b) training and counselling 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 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.

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

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 Expenditures 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 2024.

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.

2. Introduction (continued)

1.3. Financing of the Project (continued)

Disbursement		Amount of the Loan (in EUR)	Amount of the Loan Allocated (in EUR)
Indicator	Linked Results		
Description	Disbursement Linked Results		
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 250 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 issues 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
	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		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

Disbursement			
Linked			
Indicator		Amount of the Loan (in EUR)	Amount of the Loan Allocated (in EUR)
Description	Disbursement Linked Results		
DLI3: Implementation of Organizational restructuring	DL3.1(a): Consultants selected for (a) the carrying out of (i) a regulatory and functional review of the railways; and (ii) a proposal for ŽRS' reorganization; and (b) the design of (i) management and financial systems; and (ii) an asset management system	20,171,750	DLR 3.1(a): 1,000,000
	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, TAX, MAIC, and (ii) Performance Contracts		DLR 3.1(b): 1,000,000
	DLR3.2(a): Draft reports completed on the consultancies referred to in DLR3.1(a) above		DLR 3.2(a): 1,500,000
	DLR3.2(b): Draft reports completed on the consultancies referred to in DLR3.1(b) above		DLR3.2(b) 1,500,000
	DLR3.3(a): Implementation of the regulatory and functional review recommendations identified by the consulting services set forth in DLR 3.1(a)		DLR 3.3(a) 1,000,000
	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		DLR 3.(b); 1,000,000
	DLR3.3(c): PSO, TAX, MAIX and Performance Contracts signed by the respective parties thereto		DLR 3.3(c): 1,000,000
	DLR3.3(d): asset management plans in place as evidenced by report on asset conditions generated by the asset management system		DLR 3.3(d): 1,000,000
	DLR3.3(e): ŽRS' business plans for operations, infrastructure and workshops approved by its board		DLR 3.3(e): 1,000,000
	DLR3.3(f): financial accounting system and a human resources management system acquired		DLR 3.3 (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): The 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	



Independent Auditor's Report

To the State of Bosnia and Herzegovina,
Ministry of Finance and Treasury
Attn. of Minister of Finance and Treasury

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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 2023, 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 2023, 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


Jasmina Oručević, Director

Sarajevo, Bosnia and Herzegovina

11 June 2024




Aldijana Gabela, Certified Auditor

Project financial statements for the year 2023

3.1 Summary of sources and uses of funds under the IBRD No. 8808-BA

	Ref.	Actual 2023	Cumulative 2023	Cumulative 2022	Cumulative budget	Cumulative variance
FINANCING						
Loan No. 8808 - BA		-	42,400,000	42,400,000	51,171,750	8,771,750
Direct payments		-	128,250	128,250	128,250	-
TOTAL FINANCING		-	42,528,250	42,528,250	51,300,000	8,771,750
PROJECT EXPENDITURE						
<i>By Category</i>						
<i>ŽRS Eligible</i>						
expenditure program		2,613,423	42,393,665	39,780,242	51,171,750	
Front-end fee (from direct payments)		-	128,250	128,250	128,250	
TOTAL EXPENDITURE	3.2.	2,613,423	42,521,915	39,908,492	51,300,000	8,778,085
PROJECT EXPENDITURE						
<i>DLI based categories</i>						
DLR 1					18,000,000	
DLR 1.1.		-	2,539,481	2,539,481		
DLR 1.2		2,042,277	37,549,317	35,507,040		
DLR 1.3		-	-	-		
DLR 2					13,000,000	
DLR 2.1		-	408,550	408,550		
DLR 2.2		-	136,527	136,527		
DLR 2.3		157,884	270,046	112,162		
DLR 3		413,262	1,489,744	1,076,482	20,171,750	
Front-end fee		-	128,250	128,250	128,250	
TOTAL EXPENDITURE	3.2.	2,613,423	42,521,915	39,908,492	51,300,000	8,778,085

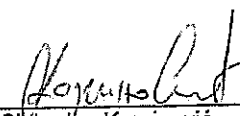
3. Project financial statements for the year 2023 (continued)

3.2 Balance sheet as of 31 December 2023 showing accumulated funds of the Project and bank balances concerning World Bank funding

	Ref.	31 December 2023	31 December 2022
ASSETS			
Project expenditure under Loan No. 8808-BA		42,393,665	39,780,242
Front -end fee		128,250	128,250
		42,521,915	39,908,492
Designated account – Loan No. 8808 – BA		6,335	2,619,758
Designated sub-account – Loan No. 8808 - BA		-	-
		6,335	2,619,758
Total assets		42,582,250	42,528,250
LIABILITIES			
IBRD Loan No. 8808 – BA (including front-end fee)		42,528,250	42,528,250
Total liabilities		42,528,250	42,528,250

Signed and authorized by:


Gordana Ilinčić, Head of PIMT


Slobodan Kaurinović
FM, DG Assistant responsible for
accounting and finances

Dobož, 11 June 2024

**FEDERATION ROAD SECTOR MODERNIZATION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2023

(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 on the cash basis of accounting based on 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 IBRD Loan Account.

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 IBRD disbursement specialist who authorizes the payment of the expenditure through the Designated Account.

Currency conversions

The reporting currency is Euro (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 IBRD Loan account for the Project. IBRD Loan account is in EUR.

Interest on Designated accounts

Interest earned on the Designated Accounts belongs to the Borrower.

**FEDERATION ROAD SECTOR MODERNIZATION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina**

Project financial statements for the year ended 31 December 2023

(all amounts in EUR, unless otherwise stated)

APPENDIX A.1	DESIGNATED ACCOUNT STATEMENT
Account owned by:	MINISTRY OF FINANCE AND TRESURY BIH
Account No.:	56724100000805254
Depository Bank:	ATOS BANK a.d. Banja Luka
Address:	Jevrejska 71, Banja Luka
Related Credit:	Loan No. 8808 - BA
Currency:	EUR

	Ref.	EUR
Opening balance 1 January		2,619,758
Add:		
World Bank replenishments		-
		-
Deduct:		
Amount of eligible expenditures paid during the period		2,613,423
		2,613,423
Ending balance 31 December		6,335

FEDERATION ROAD SECTOR MODERNIZATION PROJECT
of the Ministry of Finance and Treasury of Bosnia and Herzegovina

Project financial statements for the year ended 31 December 2023

(all amounts in EUR, unless otherwise stated)

APPENDIX A.2 DESIGNATED SUB-ACCOUNT STATEMENT

Account owned by: MINISTRY OF FINANCE AND TRESURY BIH

Account No.: 5672410000805254

Depository Bank: ATOS BANK a.d. Banja Luka

Address: Jevrejska 71, Banja Luka

Related Credit: Loan No. 8808 - BA

Currency: BAM

	Ref.	EUR
Opening balance 1 January		-
Add:		
World Bank replenishments – transfer from designated account		-
		-
Deduct:		
Amount of eligible expenditures paid during the period		-
		-
Ending balance 31 December		-

** Although the account is in BAM, the movements on designated sub-account are presented in EUR for reporting purposes.*

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 2023

(all amounts in EUR, unless otherwise stated)

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

	<i>Initial deposit</i>	<i>ŽRS Eligible expenditure program</i>	<i>Front-end fee</i>	<i>Total application</i>	<i>Total disbursed</i>
Previous years	-	-	-	-	-
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
Application 4	-	2,374,171	-	2,374,171	-
Total 2021	-	2,374,171	-	2,374,171	-
Application 5	-	2,013,893	-	2,013,893	-
Total 2022	-	2,013,893	-	2,013,893	-
Application 6	-	2,613,423	-	2,613,423	-
Total 2023	-	2,613,423	-	2,613,423	-
Cumulative 2023		42,393,665	128,250	42,521,915	42,528,250

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 2023

(all amounts in EUR, unless otherwise stated)

APPENDIX C Reconciliation between IBRD's Historic Transaction Report in EUR and Credit account in EUR according to the balance sheet; SOE Withdrawal Schedule of Loan No. 8808-BA

	Changes in IBRD Loan (in EUR)
Original amount	51,300,000
Disbursed in previous years	42,528,250
Total disbursed in 2023	-
Cumulative disbursement	42,528,250
Calculated undisbursed balance as of 31 December 2023	8,771,750
Undisbursed balance as per IBRD's Historic Transaction Report	4,771,750
Difference*	4,000,000

* Although the IV Tranche in amount of EUR 4,000,000 was released by the Bank on 22 December 2023, the funds came to the Designated Account on 8 February 2024 due to changes in the intermediary bank of the ATOS Bank a.d. Banja Luka (as the bank where DA is opened). Namely, ATOS Bank did not inform the Ministry of Finance and Treasury of BiH, the owner of the account on this change, so the World Bank used data for intermediary bank which are not relevant anymore and this caused delays in transferring the funds since procedure for change of the data by the MoFT BiH and the WB had to be respected.