Loan Agreement

(Additional Financing for the Transport Rehabilitation Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 27, 2007
LOAN AGREEMENT

Agreement dated July 27, 2007, between REPUBLIC OF SERBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I - GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions.

ARTICLE II - LOAN

2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of thirty six million eight hundred thousand Euro (€36,800,000) (“Loan”), as such amount may be converted from time to time through a currency conversion in accordance with the provisions of Section 2.08 of this Agreement, to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.

2.03. The Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.

2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.

2.05. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Fixed Spread, subject to any waiver of a portion of such interest as may be determined by the Bank from time to time; provided, that upon a Conversion of all or any portion of the principal
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amount of the Loan, the interest payable by the Borrower during the Conversion
Period on such amount shall be determined in accordance with the relevant
provisions of Article IV of the General Conditions.

2.06. The Payment Dates are February 15 and August 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with the
provisions of Schedule 3 to this Agreement.

2.08. (a) The Borrower may at any time request any of the following Conversions
of the terms of the Loan in order to facilitate prudent debt management:

(i) a change of the Loan Currency of all or any portion of the
principal amount of the Loan, withdrawn or unwithdrawn, to an
Approved Currency;

(ii) a change of the interest rate basis applicable to all or any portion
of the principal amount of the Loan from a Variable Rate to a
Fixed Rate, or vice versa; and

(iii) the setting of limits on the Variable Rate applicable to all or any
portion of the principal amount of the Loan withdrawn and
outstanding by the establishment of an Interest Rate Cap or
Interest Rate Collar on the Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that
is accepted by the Bank shall be considered a “Conversion”, as defined
in the General Conditions, and shall be effected in accordance with the
provisions of Article IV of the General Conditions and of the Conversion
Guidelines.

(c) Promptly following the Execution Date for an Interest Rate Cap or
Interest Rate Collar for which the Borrower has requested that the
premium be paid out of the proceeds of the Loan, the Bank shall, on
behalf of the Borrower, withdraw from the Loan Account and pay to
itself the amounts required to pay any premium payable in accordance
with Section 4.04 (c) of the General Conditions up to the amount
allocated from time to time for the purpose in the table in Section IV of
Schedule 2 to this Agreement.

ARTICLE III - PROJECT

3.01. The Borrower declares its commitment to the objectives of the Project. To this
end, the Borrower shall carry out the Project, through the PEPS, in accordance
with the provisions of Article V of the General Conditions.
3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following: that the Borrower’s Decision No. 115/05 has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the PEPS to perform any of its obligations under the Subsidiary Agreement.

4.02. The Additional Event of Acceleration consists of the following: the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following: that the Subsidiary Agreement has been executed on behalf of the Borrower and the PEPS.

5.02. The Additional Legal Matter consists of the following: that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and the PEPS and is legally binding upon the Borrower and the PEPS in accordance with its terms.

5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI - REPRESENTATIVE; ADDRESSES

6.01. The Borrower’s Representative is its Minister of Finance.

6.02. The Borrower’s Address is:

    Ministry of Finance
    Government of the Republic of Serbia
    Kneza Miloša 20
    11000 Belgrade
    Republic of Serbia

    Facsimile:
    381-11-3618-961
6.03. The Bank’s Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address: Telex: Facsimile:
INTBAFRAD 248423(MCI) or 1-202-477-6391
Washington, D.C. 64145(MCI)

AGREED at Belgrade, Republic of Serbia, as of the day and year first above written.

REPUBLIC OF SERBIA

By /s/ Mirko Cvetkovic
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Simon Gray
Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to assist the Borrower in reducing cost and improving safety for road users by means of: (a) improving the condition of selected road sections of the main and regional road network; (b) improving the effectiveness of road maintenance, through the introduction of performance-based contracting in two pilot regions; and (c) introducing safe road design principles, road safety audits and targeted improvement measures.

The Project consists of the Original Project and the following additional parts:

Part 1. Performance-Based Road Maintenance

Support towards the rolling over and extension of the ongoing performance-based road maintenance contracts under the Original Project in the pilot regions of Macva and Kolubara covering about 660km and 517km of main and regional roads respectively.

Part 2. Road Rehabilitation

Rehabilitation of at least seven additional sections of the primary road network including sections of the following roads: (a) Prokuplje – Mala Plana, (M-25, 8.3 km); (b) Odzaci and Kula (M3); (c) Medjuluzje – Krcevac (M23) and Krcevac – Topola (M4); (d) Marcovica (West of Cacak) – Ovcar Banja (M5); (e) Kac (East of Novi Sad) – Zabalj (M7); (f) Kruzni Put – Grocka – Smederevo (Regional road R100); and (g) Valjevo – Pricevici (M-4) all through the provision of works, goods and services.

Part 3. Assorted Consultant Services

Provision of technical assistance for supervision of road maintenance and rehabilitation works, including environmental monitoring.

Part 4. Road Safety Improvement

Support towards road safety improvement activities, including elimination of dangerous (black) spots on the main road network and road safety audits of the rehabilitated sections and in the pilot regions of Macva and Kolubara.
Section I. Implementation Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by the PEPS, the Borrower shall, through the ministry responsible for infrastructure, make the proceeds of the Loan available to the PEPS under a subsidiary agreement between the Borrower and the Project Implementing Entity ("Subsidiary Agreement"), under terms and conditions approved by the Bank.

2. The Borrower shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Institutional and Other Arrangements

The Borrower shall cause PEPS to carry out the Project in accordance with the following institutional and other arrangements:

1. The PIT, within the PEPS, shall have overall responsibility for Project implementation, including procurement, financial management, Project monitoring and evaluation, and management of environmental and social issues.

2. The PEPS shall maintain the PIT, for the entire duration of Project implementation, with terms of reference satisfactory to the Bank, and with sufficient and suitable financial and technical resources.

3. The Borrower shall ensure that:

   (a) the PEPS carries out the Project out in accordance with the respective terms of the Environmental Management Plan, and the policies, procedures and arrangements therein set forth are applied and implemented; and

   (b) the Environmental Management Plan, or any provision thereof, shall not be amended, suspended, abrogated, terminated or waived or permitted to be amended, suspended, abrogated, terminated or waived, except with the prior written approval of the Bank.
C. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

The Borrower shall cause PEPS to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar quarter, and shall be furnished to the Bank not later than forty five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall cause PEPS to maintain a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Borrower shall cause PEPS to prepare and furnish to the Bank as part of the Project Report, not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall cause PEPS to have its Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods, Works and Services (other than Consultants’ Services). All goods, works and services (other than consultants’ services) required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the
requirements set forth or referred to in Sections I and IV of the Consultant Guidelines and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Bank of particular contracts refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. **Particular Methods of Procurement of Goods, Works and Services (other than Consultants’ Services)**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and Services (other than consultants’ services) shall be procured under contracts awarded on the basis of International Competitive Bidding procedures.

2. **Other Methods of Procurement of Goods and Services (other than Consultants’ Services).** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods, works and services (other than consultants’ services). The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
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<tbody>
<tr>
<td>(a) National Competitive Bidding (subject to procedures outlined in the Annex to this Schedule 2)</td>
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<tr>
<td>(b) Shopping</td>
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<tr>
<td>(c) Direct Contracting</td>
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</tbody>
</table>

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies the methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.
D. Review by the Bank of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Bank’s Prior Review. All other contracts shall be subject to Post Review by the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank shall specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Procurement Method

<p>| |</p>
<table>
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<tbody>
<tr>
<td>(a) Least-Cost Selection</td>
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<tr>
<td>(b) Selection Based on the Consultant’s Qualifications</td>
</tr>
<tr>
<td>(c) Procedures set forth in paragraphs 5.2, 5.3 and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
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<tr>
<td>Category</td>
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<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>(1) Works</td>
</tr>
<tr>
<td>(2) Goods</td>
</tr>
<tr>
<td>(3) Consultants’ Services</td>
</tr>
<tr>
<td>(4) Training</td>
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<tr>
<td>(5) Operating Costs</td>
</tr>
<tr>
<td>(6) Premia for Interest Rate Caps and Interest Rate Collars</td>
</tr>
<tr>
<td>(7) Front-end Fee</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
</tr>
</tbody>
</table>

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.

2. The Closing Date is June 30, 2011.
ANNEX

National Competitive Bidding: Additional Provisions

For the purposes of using National Competitive Bidding Procedures, the following shall apply:

(a) Registration

(i) Bidding shall not be restricted to pre-registered firms.

(ii) Where registration is required, bidders (1) shall be allowed a reasonable time to complete the registration process, and (2) shall not be denied registration for reasons unrelated to their capability and resources to successfully perform the contract, which shall be verified through post-qualification.

(iii) Foreign bidders not from the territory of the Borrower shall not be precluded from bidding. If a registration process is required, a foreign bidder declared the lowest evaluated bidder shall be given a reasonable opportunity to register.

(b) Advertising

Invitations to bid in Serbian shall be advertised in at least one widely circulated local daily newspaper available over the territory of the Borrower allowing a minimum of 30 days for the preparation and submission of bids.

(c) Participation by Publicly-owned enterprises

Publicly-owned enterprises shall be eligible to participate in bidding only if they can establish that they are legally and financially autonomous, operate under commercial law and are not a dependent agency of the contracting authority. Furthermore, they will be subject to the same bid and performance security requirements as other bidders.

(d) Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of works or services, acceptable to the Bank.

(e) Bid Opening and Bid Evaluation

(i) Bids shall be submitted in a single envelope containing the bidder’s qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.
(ii) Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.

(iii) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. No merit point system will be used.

(iv) Extensions of bid validity will be allowed once only for not more than thirty (30) days. No further extensions shall be requested without the prior approval of the Bank.

(v) Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

(f) **Price Adjustment**

Civil works contracts of long duration (more than 18 months) shall contain an appropriate price adjustment clause.

(g) **Rejection of Bids**

(i) All bids shall not be rejected and new bids solicited without the Bank’s prior concurrence.

(ii) When the number of bids received is less than three, re-bidding shall not be carried out without the Bank’s prior concurrence.

(h) **Securities**

Bid security shall not exceed three percent (3%) of the estimated cost of the contract and performance security not more than ten percent (10%) of this cost. No advance payment at the amount of more than ten percent (10%) of the contract price shall be made to contractors without a suitable advance payment security. These securities shall be included in the bidding documents in a text and format acceptable to the Bank.

The Regional Sample Bidding Documents for the Europe and Central Asia Region of the Bank, modified as acceptable to the Bank, shall be used.
SCHEDULE 3

Amortization Schedule

1. 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 (“Installment Share”). If the proceeds of the Loan have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by the Bank by multiplying: (a) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<table>
<thead>
<tr>
<th>Principal Payment Date</th>
<th>Installment Share (Expressed as a Percentage)</th>
</tr>
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<tbody>
<tr>
<td>On each February 15 and August 15 Beginning August 15, 2012 Through August 15, 2023</td>
<td>4.17%</td>
</tr>
<tr>
<td>On February 15, 2024</td>
<td>4.09%</td>
</tr>
</tbody>
</table>

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.

(b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts
payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
APPENDIX

Definitions


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


4. “Environmental Management Plan” means the plan dated November 2003, describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Bank.


6. “Operating Costs” means the incremental expenses incurred on account of office space rental.


8. “Original Project” means the Project described in the Original Development Credit Agreement.

9. “PEPS” means the Public Enterprise Putevi Srbije, established by, and operating pursuant to, the Borrower’s Decision No. 115/05 (as defined herein before), or any successor thereto.

10. “PIT” means the Project Implementation Team, within the PEPS, and consisting of employees of the PEPS.

12. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated May 25, 2007 and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.