Ms. Ksenija Milenkovic
Acting Director
European Integration Office
Government of the Republic of Serbia
Nemanjina 34
11000 Belgrade

Re: Republic of Serbia: Serbia Rightsizing and Restructuring Project
EU TF Grant No. TF0A2475

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Serbia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development/International Development Association ("World Bank"), acting as administrator of grant funds provided by the European Commission on behalf of the European Union ("EU") ("Donor" or "EU") under the Serbia Rightsizing and Restructuring Project Single-Donor Trust Fund TF072531, proposes to extend to the Recipient a grant in an amount not to exceed Five Hundred and Forty Thousand Euros (€540,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT/INTERNATIONAL DEVELOPMENT ASSOCIATION

By
Antoniuerheijen
Country Manager
Republic of Serbia

AGREED:

REPUBLIC OF SERBIA

By: 
Authorized Representative

Name: 

Title: Acting Director

Date: 22.09.2016

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank “Disbursement Guidelines for Projects” dated May 1, 2006.
Article I
Standard Conditions; Definitions


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

(a) “Change Management Support” or “CMS” means the team of long and short-term consultants, established in the Ministry of Public Administration and Local Self-Government (MPALSG as defined hereinafter), responsible for Project coordination and implementation of recommendations coming from functional reviews conducted by the World Bank within Serbia Rightsizing and Restructuring Project Single-Donor Trust Fund (TF No. 072531) as well as any other related recommendations as agreed by the MPALSG.

(b) “Government Program for Optimization” means the Recipient government program for optimization of the Public Sector in line with the Law on Ceilings on the Number of Employees in Public Administration (Official Gazette of Republic of Serbia No. 68/2015) and Action plan for the implementation of the PAR Strategy, as well as other acts regulating this area.

(c) “Public Administration Reform Strategy or “PAR Strategy” means the Recipient’s Government Strategy for Reform of the Public Sector approved on January 24, 2014.

(d) “Public Administration Reform Council” means the Recipient’s central strategic body for the reform of public administration, tasked to define strategic directions of the reform of public administration, to initiate and recommend to the Recipient’s government measures and activities to be taken in regard to the reform of the public administration, and to review and adopt reports on the achieved results.

(e) “MPALSG” means the Recipient’s Ministry of Public Administration and Local Self-Government or its legal successor thereto.

(f) “Project Steering Committee or (“PSC”)” means the committee established to oversee Project implementation as referred to in Section 2.03 of this Agreement.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is assist the Recipient in improving the organizational and functional structures of its public administration system in accordance with the Public Administration Reform Strategy (PAR Strategy), through implemented rightsizing exercise in selected public administration sub-systems and implemented change management and communication strategy (the Project).
The Project consists of the following parts:

**Part A. Implementation, Accompanied with Change Management and Communication (Recipient-Executed)**

1. Establishing a CMS team for the overall Project and task force teams of Government representatives to: (a) promote a participatory and collaborative process, as well as ownership of Project outputs by the Recipient’s authorities; (b) facilitate the alignment of the Project with the PAR Strategy and action plan, as well as the Government Program for Optimization (rightsizing).

2. Provision of technical assistance support to:
   
   (i) Review international best practices on communication and change management in public sector reform and rightsizing/downsizing;

   (ii) Develop a comprehensive change management and communications strategy in line with best practices;

   (iii) Implement a communication campaign in line with the PAR Strategy;

   (iv) Conduct workshops and seminars with senior management of the Recipient’s public administration;

   (v) Conduct awareness-raising workshops and other events to communicate planned support mechanisms for staff dealing with right-sizing exercise;

   (vi) Back-up public administration bodies in the implementation of the roadmaps, including: (i) technical support in preparation/revision of relevant legislative pieces, (ii) preparation of additional analytical materials necessary for implementation of particular recommendations/measures, (iii) provision of support for implementation of recommendations related to Human Resource Management (HRM) and Human Resource Development (HRD) aspects in particular public administration subsystems, and (iv) assessment of the success of targeted subsystems of the public administration system in implementing the recommendations; and

   (vii) undertake European Union (EU) visibility actions as needed, in collaboration with government counterparts, as referred to in section 2.04 (a) below.

2.02. **Project Execution Generally.** The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project, through MPALSG, in accordance with the provisions of: (i) Article II of the Standard Conditions; (ii) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (iii) this Article II.
2.03. **Institutional and Other Arrangements.** For the purposes of carrying out the Project, no later than 45 days from the Effective Date, the Recipient, through MPALSG, shall establish, and thereafter maintain, a Project Steering Committee (PSC) chaired by the Minister of MPALSG, to oversee Project implementation, comprising of representatives of the Ministries of Finance; Education; Health; Agriculture and Environment; and Labor, Employment, Veteran and Social Affairs. The PSC shall meet at least every 30 days and shall perform the following key functions: (a) review progress of the Project and report on outstanding issues; (b) provide strategic guidance for Project implementation; (c) coordinate and facilitate the overall linkages with the broader Government public sector reform program (d) review and endorse quarterly reports on the implementation of project activities; and (e) address implementation challenges.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank shall reasonably request, on the basis of a visibility note between the Donor and the World Bank, made available by the World Bank to the Recipient, to identify publicly the Donor's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donor to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Documents; Records.**

In addition and without limitation to the obligations set forth in Section 2.05 of the Standard Conditions, the Recipient shall ensure that:

(a) all records evidencing expenditures under the Project are retained for seven years and six months after the Closing Date, such records to include: (i) this Agreement, all addenda thereof, and any amendments thereto; (ii) the Recipient’s financial and narrative progress reports submitted to the World Bank; (iii) the Recipient’s financial information related to the Grant, including audit reports, invoices and payroll records; (iv) the Recipient’s implementation documentation (including sub-agreements, procurement files, contracts, purchase orders); and (v) the corresponding supporting evidence referred to in Section 3.04 of the Standard Conditions; and

(b) the representatives of the World Bank are: (i) able to examine all records referred to above in paragraph (a); (ii) provided all such information concerning such records as they may from time to time reasonably request; and (iii) able to disclose such records and information to the Donor.

2.06. **Project Monitoring, Reporting and Evaluation.**

(a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators acceptable to the World Bank. Each Project Report shall cover the period of six months, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date.
2.07. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than 45 days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Such audit of the Financial Statements shall cover the entire period during which withdrawals from the Grant Account were made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.08. **Procurement**

(a) **General.** All non-consulting services and consultants’ services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014) (“Consultant Guidelines”) in the case of consultants’ services; and

(ii) the provisions of this Section II as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II, III, IV and V of the Consultant Guidelines.

(c) **Particular Methods of Procurement of Consultants’ Services**

(i) **Quality- and Cost-based Selection.** Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) **Other Methods of Procurement of Consultants’ Services.** The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Least Cost Selection; (B) Selection based on Consultants’ Qualifications; (C) Single-source Selection of consulting firms; (D) Selection of Individual Consultants; and (E) Single-source procedures for the Selection of Individual Consultants.

(d) **Review by the World Bank of Procurement Decisions.** The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.
(e) **Document Retention.** Notwithstanding the provisions of paragraphs 2(k) and 5 of Appendix I to the Consultant Guidelines, the Recipient: (i) shall retain all documentation with respect to each contract as described in said paragraphs for at least seven years and six months after the Closing Date set forth in Section 3.03 of this Agreement; (ii) shall furnish such documentation to the World Bank at any time upon request; and (iii) hereby authorizes the World Bank to disclose such documentation to the Donor.

(f) **Right to use Project outputs.** To the extent the Recipient has the intellectual property rights to Project outputs and subject to any third party proprietary or confidential obligation it may have, the Recipient shall grant the Donor the right to use such outputs for purposes limited to the development, implementation and monitoring of EU programs, including distribution to the public, translation, storage and archive.

### Article III

**Withdrawal of Grant Proceeds**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (i) the Standard Conditions; (iii) this Section; and (iv) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in Euros)</th>
<th>Percentage of Expenditures to be Financed (exclusive of deductible value added tax)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consultants’ services, training and workshops under Part A of the Project</td>
<td>540,000</td>
<td>100%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>540,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of this Agreement.

3.03. **Withdrawal Period.** The Closing Date (“Closing Date”) referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2018.
Article IV
Effectiveness; Termination

4.01. **Effectiveness:** This Agreement shall become effective upon governmental authorization and countersigning of this Agreement by the Recipient, satisfactory to the World Bank.

Article V
Recipient’s Representative; Addresses

5.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Director of the Serbia European Integration Office.

5.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Serbia European Integration Office  
Government of the Republic of Serbia  
Nemanjina 34  
11000 Belgrade

5.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Telex: 248423 (MCI) or 64145 (MCI)  
Facsimile: 1-202-477-6391