July 3, 2012

H.E. Mirko Cvetkovic
Minister
Ministry of Finance
Belgrade, Republic of Serbia

Your Excellency:

Re: Delivery of Improved Local Services Project (Loan No. 7510 YF)
Amendment to the Loan Agreement

We refer to the Loan Agreement between the Republic of Serbia (the “Borrower”) and the International Bank for Reconstruction and Development (the “Bank”) for the above-referenced Project, dated April 11, 2008 (the “Loan Agreement”). We also refer to your letters dated February 2, 2012 and May 11, 2012, requesting the Bank to amend the Loan Agreement. We also refer to the letter from the Fiduciary Services Unit of May 23, 2012 which provided details of the reallocation of the Loan proceeds.

We are pleased to inform you that the Bank hereby agrees to your request and proposes to amend the Loan Agreement as follows:

(1) Schedule 1, Project Description, is replaced in its entirety by the Amended and Restated Schedule 1, Project Description, attached hereto as Annex 1.

(2) The table under Section IV.A.2. of Schedule 2 shall be replaced in its entirety by the table in Annex 2 to this Amendment.

As a result of the foregoing amendments and pursuant to your letter of February 2, 2012, Supplemental Letter No. 2 to the Loan Agreement is replaced by the Amended and Restated Supplemental Letter No. 2, attached hereto as Annex 3.

Please confirm your agreement with the foregoing amendment by signing, dating and returning to us the attached copy of this Amendment Letter.
This Amendment Letter will become effective as of the date of countersignature, upon receipt by the Bank of the countersigned copy of this Letter.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By __________________________

Anthony Gaeta
Acting Country Director and Regional Coordinator for Southeast Europe
Europe and Central Asia Region

CONFIRMED AND AGREED:

REPUBLIC OF SERBIA

By: __________________________
Authorized Representative

Name: Mirko Cvetkovic

Date: July 25, 2019
ANNEX 1 TO THE AMENDMENT TO LOAN NO. 7510-YF

AMENDED AND RESTATED
SCHEDULE 1

Project Description

The objective of the Project is to increase the capacity of institutional actors and Beneficiaries in order to improve access to, and the efficiency, equity and quality of, local delivery of health, education and social protection services, in a decentralizing environment.

The Project consists of the following parts:

Part 1: Transform Financing Models

Development of a public financing framework that increases efficiency while compensating for inequities across municipalities and promoting the process of rationalization of the service network at the local level by means of investments in goods, technical assistance, Training and non-consultant services as follows:

(a) Development of new “funds-follow-the-user” financing mechanisms and a financing framework with the Borrower’s line ministries and LSGs, including “compensating weights” to correct inequalities across municipalities so funds are allocated to municipalities in a transparent, rational and predictable way consistent with their new service delivery responsibilities.

(b) Support for the design and implementation of communication campaigns and Training for all sector actors at the State, LSG and service provider levels in support of the application of the new financing mechanisms and financial framework, including provision of Training to LSGs and service providers in order to strengthen their ability to use the money they receive from various sources to improve the quality and efficiency of service delivery.

Part 2: Improve Access and Equity

Provision of goods, technical assistance, Training, non-consultant services and financing of Grants to Beneficiaries to strengthen their ability to identify new approaches and models for delivering services, and including the following:

(a) Provision of Grants to Beneficiaries to develop outreach services to excluded groups (such as Roma, internally displaced persons, refugees, and people with disabilities).

(b) Reform the financing and delivery of services for disabled people including: (i) provision of technical assistance to MOLSP, de-concentrated centers for social work and local authorities in LSGs responsible for social services to disabled people; (ii) provision of technical assistance to review the operational structure of, and reform the Disability Fund with a view to adopting a competitive project-based financing mechanism, and financing Grants for said entities to bridge the transition from incremental to said project-based financing mechanism; and (iii) carrying out evaluations of the Disability Fund’s operation and its activities.
(c) Expand the Borrower’s ministries’ and the LSGs’ capacity to jointly address the specific needs of excluded vulnerable groups, including the capacity to identify and implement alternative service delivery arrangements and collaborative approaches.

(d) Improve knowledge and establish institutions to safeguard citizens’ rights, including the design and implementation of communication campaigns and safeguard institutions and mechanisms as required therefore.

Part 3: Improve Accountability and Quality

Support to the Borrower’s ministries, LSGs and other local service providers to assume their new roles and responsibilities, including regulation, oversight, quality assurance, management, planning, budgeting and service delivery through capacity building measures, including the design and implementation of protocols tools and measures to develop knowledge and skills, encompassing Training, technical assistance, non-consultant services, goods, and the financing of grants for the following:

(a) Development and support of the Training required for: (i) the Borrower’s ministries to shift to a regulatory, oversight and quality assurance role, development, through consultation with stakeholders, of appropriate regulatory frameworks across a number of areas (such as standards for pre-schools and training providers), and preparation and publication of reports of service delivery at the State, LSG and service provider levels; and (ii) for the LSGs to develop competences in the delivery of services being decentralized, with a view to enhancing transparency and good governance at the LSG level.

(b) Definition of regulations and standards for local service delivery, including the specification of the new roles and responsibilities of municipal staff and service providers in the decentralized system and creation of mechanisms to foster and assure quality, including developing systems of accreditation, licensing and accountability to enable line ministries and municipalities to monitor service delivery, to ensure compliance with procedures and standards as well as accountability in management and service delivery.

(c) Support for MOE-supported grant mechanisms aimed at promoting locally-inspired quality improvements, through the financing of Grants to schools, LSGs and education service providers, and the provision of technical assistance to regional school administrations to further enhance their capacity to work with schools on their SDPs.

(d) Improvement in the use of information, statistics and Information Communications Technology (ICT), through the coordination of existing ICT strategies in each of the education, health and social protection sectors, the design and implementation of mechanism to enable existing data bases to share data in real time and adding new data as future needs arise, including investments needed to improve: (i) connectivity of local service providers (primary health care centers, schools, decentralized centers for social work, and other social protection institutions) to the internet and national data networks; and (ii) Information Communications Technology, and provision of technical assistance on the legal and privacy aspects of administrative use of information on citizens with a view to ensure compliance with EU information and privacy standards.
(e) Development of mechanisms to reinforce the Borrower's capacity to ensure quality improvements to service delivery through: (i) piloting, monitoring, impact evaluation and performance analysis to ensure the effectiveness of specific Project investments and to support evidence-based decision making and accountability, including the provision of Grants to local service providers undertaking these monitoring and evaluation activities; (ii) conducting impact evaluations and surveys of decentralization in the education, health and social protection sectors; and (iii) strengthening the accountability system in the education sector so as to enable the Borrower to participate in international assessments of student performance and teaching and learning practices in schools, conduct research on student and school performance, and carry out external evaluations of schools.

(f) Provision of Grants to carry out minor civil works for the renovation of primary health care centers and schools.

Part 4: Support Project Implementation

Provision of technical assistance, Training and goods to the Fiduciary Services Unit and to the Borrower's Project administration teams (PATs) responsible for Project implementation in the line ministries, including the preparation of the audit referred to in paragraph C.3, Section II of Schedule 2 to this Agreement.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of Loan Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Training and Operating Expenses</td>
<td>6,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services, including the preparation of the audit under Part 5 of the Project</td>
<td>5,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Grants (other than Grants for civil works under Parts 2(a), 3(c) and 3(e) of the Project)</td>
<td>7,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Grants for civil works under Parts 3(f) of the Project</td>
<td>250,000</td>
<td>100%</td>
</tr>
<tr>
<td>(5) Front-end Fee</td>
<td>80,000</td>
<td>Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions</td>
</tr>
<tr>
<td>(6) Premia for Interest Rate Caps and Interest Rate Collars</td>
<td>0</td>
<td>Amount payable pursuant to Section 2.07 (c) of this Agreement in accordance with Section 4.04 (c) of the General Conditions</td>
</tr>
<tr>
<td>(7) Goods, Consultants’ services including the preparation of the audit under Part 4 of the Project, Non-consultants’ services, Grants (other than Grants for civil works under Parts 3(f) of the Project), Training and Operating Expenses</td>
<td>13,170,000</td>
<td>100%</td>
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<tr>
<td>TOTAL AMOUNT</td>
<td><strong>32,000,000</strong></td>
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