H.E. Diana Dragutinovic  
Minister of Finance  
Ministry of Finance  
20 Kneza Miloša St.  
11000 Belgrade  
Republic of Serbia  

Re: Republic of Serbia: IDF Grant for Creation of Permanent Institutional Framework for Regulatory Impact Assessment Project  
IDF Grant No. TF096222

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 (“World Bank”) proposes to extend to the Recipient a grant from the World Bank’s Institutional Development Fund (“IDF”) in an amount not to exceed three hundred and fifty thousand United States Dollars (U.S.$350,000) (“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”).

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. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer
of this Agreement shall be deemed withdrawn if the World Bank has not received the
countersigned copy of this Agreement within 90 days after the date of signature of this
Agreement by the World Bank, unless the World Bank shall have established a later date for
such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Simon Gray
Country Manager, Serbia
Europe and Central Asia Region

AGREED:

REPUBLIC OF SERBIA

By /s/ H.E. Diana Dragutinovic
Name: H.E. Diana Dragutinovic
Title: Minister of Finance
Date: August 20, 2010

Enclosures:

(1) Standard Conditions for Grants Made by the World Bank Out of Various Funds,
dated July 1, 2008
(2) Disbursement Letter dated April 21, 2010, together with World Bank Disbursement
Guidelines for Projects, dated May 1, 2006
Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank Out of Various Funds dated July 1, 2008 (“Standard Conditions”) constitute an integral part of this Agreement.

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) “ABR” means administrative burdens reduction.

(b) “CRR” means the Council for Regulatory Reform, a temporary unit established under Decision of the Government of Serbia on the Establishment of the Council for Regulatory Reform (Official Gazette of the Republic of Serbia 41/2003 and 113/2004) with the authority to coordinate RIA implementation, to assist the government ministries of the Recipient and to carry out RIA on the regulatory norms produced by the ministries.

(c) “MERD” means the Ministry of Economy and Regional Development of the Recipient and any successor thereto.

(d) “PMU” means the Project Management Unit that was established under and is housed at the Privatization Agency, a government agency, of the Recipient with responsibilities to carry out day-to-day operation, procurement and financial management of the Project.

(e) “RRU” means a Regulatory Review Unit, a permanent government unit that will be established by the Recipient to take over the responsibilities of CRR.

(f) “RIA” means regulatory impact assessment, a method of evaluating probable effects of a new regulation or regulatory changes.

Article II

Project Execution

2.01. **Project Objectives and Description.** The objective of the Project is to provide support to the Recipient in transforming the Secretariat of the CRR into a permanent government body in order to ensure sustainability of RIA and ABR on a national level. The Project consists of the following parts:

Part A. Training on RIA and ABR
Provision of training on RIA and ABR techniques, methods and processes to (i) RRU staff members and relevant staff from the MERD of the Recipient, and (ii) civil servants from various regulatory bodies of the Recipient.

Part B. Capacity Building for the Regulatory Review Unit

(a) Provision of hands-on training to RRU staff members by the consultants who worked for CRR in order to ensure smooth and quality transition from CRR to RRU. At the end of the training, the consultants will prepare and submit an implementation report, including recommendations, to the Recipient.


(c) Provision of consultants’ services for the modification of an existing software for ex-ante administrative costs measurements and RIA that has been used by CRR.

(d) Provision of consultants’ services for updating and managing an existing RIA web portal of the Recipient.

(e) Finance a study tour for RRU staff to the European Commission’s Better Regulation Unit in Brussels.

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 its MERD and the PMU in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) 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 (c) this Article II.

2.03. Institutional and Other Arrangements. (a) The MERD shall oversee and manage the technical implementation of the Project.

(b) The PMU shall be responsible for carrying out the day-to-day operation, procurement and financial management arrangements of the Project. At all times during the implementation of the Project, the Recipient shall maintain the PMU with office space, resources and personnel sufficient to carry out its responsibilities under the Project and shall provide training facilities, counterpart staff time, trainee staff time and administrative support for the Project at the amount not less than 10 (ten) percent of the Grant amount. The Recipient may choose to waive VAT under its applicable laws should the Recipient deems it necessary to support the Project implementation.

2.04. Project Monitoring, Reporting and Evaluation. (a) The Recipient shall monitor and evaluate the progress of the Project and, upon the World Bank’s request, prepare Project Reports, in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of the indicators set forth below in paragraph (b) of this Section. Each Project Report shall cover such period as shall be indicated in the World Bank’s request and shall be furnished to the World Bank not later than one (1) month after the date of such request.
The performance indicators referred to above in paragraph (a) consist of the following:

(i) Six RRU staff are trained on RIA and ABR and capable of providing quality control of RIA and ABR.

(ii) 100 civil servants are trained on RIA and ABR, and staff members of the RRU are trained as trainers.

(iii) Updated RIA Manual and Standard Cost Model Manual are prepared and distributed, and existing software is modified to conduct ex-ante administrative costs measurement and RIA.

(iv) RIA Web Portal is managed providing up to date information.

(v) A cooperation between the RRU and the European Commission’s Better Regulation Unit is established.

(c) The Recipient shall, upon the World Bank’s request, 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 five (5) months after the Closing Date.

2.05. 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 forty five (45) days after the end of each six (6) months (semi-annual) period representing the calendar 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.

2.06. Procurement

(a) General. All goods and 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) Section I (excluding paragraph 1.16) of the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the World Bank in May 2004 and revised in October 2006 (“Procurement Guidelines”), in the case of goods; and
(ii) Sections I (excluding paragraph 1.24) and IV of the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004 and revised in October 2006 (“Consultant Guidelines”) in the case of consultants’ services.

(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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods. (i) Except as otherwise provided in sub-paragraph (ii) below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following method, other than International Competitive Bidding, may be used for procurement of goods for those contracts which the World Bank agrees meet the requirements set forth in the Procurement Guidelines for their use: (A) Shopping.

(d) Particular Methods of Procurement of Consultants’ Services

(i) 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) The following methods may be used for the procurement of consultants’ services for those assignments which the World Bank agrees meet the requirements set forth in the Consultant Guidelines for their use: (A) Selection based on Consultants’ Qualifications; (B) Least Cost selection; (C) Single-source Selection; (D) Selection of Individual Consultants; and (E) Sole Source Procedures for the Selection of Individual Consultants.

(e) Except as the World Bank shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the World Bank: (a) the first shopping contract for goods and all contracts for goods to cost $100,000 or more; (b) the first contracts with firms and individuals regardless their value; and (iii) all contracts with firms estimated to cost $100,000 or more, and (iv) all contracts with individual consultants estimated to cost $50,000 or more. The terms of references of all consultants’ services shall be subject to Prior Review by the World Bank. All other contracts shall be subject to Post Review by the World Bank.”

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: (a) Article III of the Standard Conditions; (b) this Section; and (c) 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 USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>7,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services, including audit</td>
<td>319,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Training</td>
<td>24,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>350,000</td>
<td></td>
</tr>
</tbody>
</table>

For the purposes of this Section, the term “Training” means training, workshops and study tours organized under the Project, including purchase and publication of materials, rental of facilities, course fees, and travel expenses and subsistence of trainees.

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 countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is three (3) years after the date of countersignature of this Agreement by the Recipient.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Minister of Finance of the Recipient.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:
4.03. **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  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

<table>
<thead>
<tr>
<th>Cable</th>
<th>Telex</th>
<th>Facsimile</th>
</tr>
</thead>
<tbody>
<tr>
<td>INTBAFRAD</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
</tr>
<tr>
<td>Washington, D.C.</td>
<td>64145 (MCI)</td>
<td></td>
</tr>
</tbody>
</table>