Loan Agreement

(Delivery of Improved Local Services Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated April 11, 2008
LOAN NUMBER 7510-YF

LOAN AGREEMENT

Agreement dated April 11, 2008, between the REPUBLIC OF SERBIA (the “Borrower”) and the INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the “Bank”). 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 or in the Appendix to this Agreement.

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 two million Euros (EUR 32,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Agreement (“Loan”), 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 Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.

2.04. 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; provided, that upon a Conversion of all or any portion of the principal 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. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02 (d) of the General Conditions.
2.05. The Payment Dates are May 15 and November 15 in each year.

2.06. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 to this Agreement.

2.07. (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 - THE 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 MOE, the MOH and the MOLSP 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 - EFFECTIVENESS; TERMINATION

4.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Borrower shall have established the Project Policy Board referred to in paragraph A.1, Section I of Schedule 2 to this Agreement with a composition and under terms of reference satisfactory to the Bank.

(b) The Borrower shall have: (i) established the FSU under terms of reference and with staff satisfactory to the Bank; and (ii) appointed the manager of the FSU and the three (3) Project administrators referred to, respectively, in paragraphs A.4 and A.2, Section I of Schedule 2 to this Agreement, all of them with qualifications and under terms of reference satisfactory to the Bank.

(c) The Borrower, through the Project Policy Board, shall have adopted the Project Operational and Grants Manual in form and substance satisfactory to the Bank.

4.02. The Effectiveness Deadline is the date one hundred fifty (150) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

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

5.02. The Borrower’s Address is:

Ministry of Finance
20 Kneza Milosa St.
11000 Belgrade
Republic of Serbia

Facsimile: (38-11) 3618-914

5.03. 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: INTBAFRAD
Telex: 248423(MCI) or 64145(MCI)
Facsimile: (1-202) 477-6391
AGREED at Washington, District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF SERBIA

By /s/ Mirko Cvetković
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By /s/ Jane Armitage
Authorized Representative
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: Making Fiscal Decentralization Work

Development of a public financing framework that increases efficiency while compensating for inequities across municipalities, and promote the process of rationalization of the service network at the local level, through the implementation of the Law on Local Self Government Finance by means of investments in goods, technical assistance and Training as follows:

(a) Development of new “funds-follow-the-user” formulae and a financing framework with the Borrower’s line ministries and its Commission for local self government finance, including “compensating weights” to correct inequities across municipalities so funds are allocated to municipalities in a transparent, rational and predictable way consistent with their new service delivery responsibilities.

(b) Provision of Training for all sector actors at the State, LSG and service provider levels in application of the new financing 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.


Provision of goods, technical assistance, Training and financing of Grants to Beneficiaries to strengthen their ability in identifying 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 and refugees).

(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 entities referred to in (i) to bridge the transition from incremental to said project-based financing mechanism; and (iii) carrying out rigorous impact evaluation of activities supported by said Fund.

(c) Expand LSGs’ capacity to 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 development of information material and safeguard institutions and mechanisms as required therefor.

Part 3: Supporting a New Regulatory, Oversight and Quality-Assurance Role for the Borrower’s Ministries

Support for the institutional shift from direct provision to a new regulatory, oversight and quality assurance role for the Borrower’s ministries, through capacity building measures, including staff training, the development of new protocols and tools for monitoring and evaluation, encompassing the provision of Training, technical assistance and goods for the following:

(a) Development and support of the Training required for 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.

(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 a decentralized system.

(c) Development of mechanisms to reinforce the Borrower’s capacity in ensuring 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, conduct research on student and school performance, and carry out external evaluation of schools.
(d) Provision of Grants to carry out minor civil works for the renovation of primary health care centers.

Part 4: Improving Capacity of LSGs and Other Local Public Institutions as Service Providers

Carrying out of a program to ensure that staff in both the LSGs and other local service providers have the information and communication technology tools, knowledge and skills required to make decisions in management, strategic planning, needs assessment and budgeting, service delivery and monitoring and evaluation, and provision of investments needed to improve: (i) connectivity of local service providers (primary health care centers, schools and decentralized centers for social work) to the internet and national data networks; and (ii) information and communication technology, through the provision of technical assistance, goods, Training, and Grants to schools, primary health care centers and municipalities as follows:

(a) 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, and to ensure compliance with procedures and standards as well as accountability in management and service delivery.

(b) Support to capacity building tailored to LSG needs, consisting of the development and delivery of Training programs to build competences required for delivery of the services being decentralized, with a view to enhancing transparency and good governance at the LSG level.

(c) Support for MOE-supported grant mechanisms aiming 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 and the design of a mechanism to enable existing data bases to share data in real time and adding new data as future needs arise, 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) Provision of Grants to carry out minor civil works for the renovation of schools.
Part 5: Support for 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.
SCHEDULE 2
Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements and Implementation Covenants

1. Project Policy Board

The Borrower shall maintain, throughout Project implementation, a body composed of all the stakeholder ministries (MOE, MOH and MOLSP), the Ministry of Finance, the Ministry of Public Administration and Local Self Government, and one representative of LSGs to provide Project policy guidance and strategic coordination. The Project Policy Board shall be responsible for the Project, acting as a forum to guide activities, particularly those of a cross-ministerial nature, resolve disputes and make decisions on any necessary changes to the Project as the need arises. For such purposes, the Project Policy Board shall meet on a regular basis to report on Project activities and progress toward delivery of Project outputs and the achievement of development outcomes.

2. Implementing Staff in each Line Ministry

Day-to-day implementation of the Project shall be the responsibility of the concerned line ministry as set forth in the Project staffing plan for each ministry, which shall appoint a full-time Project administrator and the staff (including permanent civil servants) who shall be responsible for the individual activities which shall form part of their respective staff job descriptions. The said staff shall provide technical sector knowledge and specifications to the FSU for investments financed by the Project, while the relevant line ministry shall provide authorization to the FSU to make payments thereof.

3. Project Implementation Committee

The PIC shall consist of the Project administrators of each of the line ministries as well as the manager of the FSU. The PIC shall meet on a weekly basis, throughout Project implementation to coordinate the activities under the Project.

4. The Fiduciary Services Unit

(a) The Borrower shall maintain a joint FSU with the MOE, the MOH and the MOLSP, throughout Project implementation, headed by a manager and adequately staffed and with sufficient resources to enable it to carry out its functions with due diligence and efficiency and in a timely manner. The Borrower, through the FSU, shall centralize and maintain Project records, coordinate activities, manage procurement and
the selection of consultants and consolidate financial information for the different Project activities to be implemented by, respectively, the MOE, the MOH and the MOLSP. The manager of the FSU shall call an extraordinary meeting of the Project Policy Board if the PIC is unable to take a decision regarding the Project at two (2) successive meetings.

(b) Until the Bank shall have been satisfied that the FSU is fully operational and trained to carry out its fiduciary responsibilities under the Project, the Borrower, through the MOH, shall ensure that the PCU carry out such fiduciary responsibilities in the interim.

5. The Borrower shall, and shall cause the FSU, the MOE, the MOH and the MOLSP to:

(a) duly perform all obligations under the Project Operational and Grants Manual and ensure that all measures necessary for the proper carrying out of the EMP are taken, all in a timely manner and in accordance with their respective terms, and apply and implement, as the case may be, the actions, criteria, policies, procedures and arrangements therein set forth; and

(b) not amend or waive, or permit to be amended or waived the Project Operational and Grants Manual or the EMP or any provisions of any one thereof, except with the prior written approval of the Bank.

B. Grants under the Project

1. The mechanism for making available the Grants under the Project shall be coordinated and monitored by, respectively, the MOLSP, the MOE and the MOH for Grants made to Beneficiaries under their respective competence, with the proceeds of the Loan to finance said Grants flowing directly to the Beneficiaries. To those ends, the MOLSP, the MOE and the MOH shall follow and apply at all times the relevant provisions of the Project Operational and Grants Manual and the EMP.

2. Procedures and Conditions for Approval of Grants

(a) The MOE, the MOH and the MOLSP shall each, as appropriate: (i) perform the evaluation of the respective Grant application; (ii) decide on which Grants shall receive Loan financing; and (iii) approve Grants for disbursement.

(b) The Borrower shall take all measures necessary to ensure that, in making the Grants available, the MOE, the MOH and the MOLSP, when and as appropriate, shall obtain rights adequate to protect the interests of the Borrower and those of the Bank, including the right to: (i) suspend or terminate the right of the Beneficiary to use the proceeds of the Grant, or obtain a refund of all or any part of the amount of the Grant then withdrawn, upon the Beneficiary’s failure to perform any of its obligations under the Grant Agreement; and (ii) require each Beneficiary to: (A) carry out the activities for
which the Grant was given with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank and under the terms and conditions stipulated in the Project Operational and Grants Manual and the EMP; (B) provide, promptly as needed, the resources required for the purpose of the Grant; (C) procure the goods, works and services to be financed out of the proceeds of the Grant in accordance with the provisions of this Agreement; (D) upon reasonable request, enable the Borrower and the Bank to inspect the activities, its operation and any relevant records and documents; and (E) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.

(c) The Borrower shall take all measures necessary to ensure that the MOE, the MOH and the MOLSP, when and as appropriate, exercise their respective rights under each Grant Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan.

3. For purposes of Parts 3(d) and 4(e) of the Project, no Grant under Category 4 of the table set forth in Part A.2, Section IV of this Schedule shall be made unless the Borrower shall have first, prior to the commencement of renovation works for each proposed site: (a) submitted to the Bank for its approval the proposed site for said works and the related site-specific EMP, said site-specific EMP to be in form and substance satisfactory to the Bank; and (b) submitted to the Bank for its approval the proposed contract for activities to be financed by said Grant to ensure that the provisions of said site-specific EMP are adequately included in said contract.

C. Project Operational and Grants Manual

The Borrower, through the MOE, the MOH and the MOLSP, as the case may be, shall: (i) take all action required to carry out the Project in accordance with the provisions and requirements set forth or referred to in the Project Operational and Grants Manual; (ii) submit recommendations to the Bank for its consideration for changes and updates of the Project Operational and Grants Manual as they may become necessary or advisable during Project implementation in order to better achieve the Project objectives; and (iii) not assign, amend, abrogate or waive the Project Operational and Grants Manual or any of its provisions without the Bank’s prior agreement.

D. Training under the Project

For purposes of Training to be carried out under the Project, the Borrower shall:

(a) furnish to the Bank for its approval, the content of each such Training, including an explanation on how such Training is consistent and conducive to the objectives of the Project and whether it offers the best price/quality ratio, as well as the schedule for its implementation;
(b) select the trainees in accordance with a transparent process and criteria satisfactory to the Bank;

(c) not later than December 1 of each year, exchange views with the Bank on the Training to be carried out during the following calendar year; and

(d) furnish to the Bank a report of such scope and detail as the Bank shall reasonably request, on the results of each Training and the benefits to be derived therefrom.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Borrower shall monitor and evaluate the progress of the Project and, through the Project Implementation Committee, prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions, on the basis of the Performance and Monitoring Indicators and including adequate information on the carrying out of the measures set forth in the EMP. Each Project Report shall cover a six (6) month period, and shall, upon clearance by the Project Policy Board, be furnished to the Bank not later than one (1) month after the end of the period covered by such report.

2. For purposes of Section 5.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Bank not later than six (6) months after the Closing Date.

B. Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance and Monitoring Indicators, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank, twenty-three (23) months after the Effective Date, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank, twenty-four (24) months after the Effective Date or such later date as the Bank shall request, the report referred to in the preceding paragraph (b) and, thereafter, take all measures required to ensure the efficient
completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank’s views on the matter.

C. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained 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 prepare and furnish to the Bank 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 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. The Borrower shall ensure that the scope of each said audit includes a performance review, at least on a sample basis, of the delivery of Project outputs.

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.

2. Other Methods of Procurement of Goods, Works 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 for Goods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Procurement Method for Works</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Competitive Bidding for Works, subject to the following additional provisions:</td>
</tr>
</tbody>
</table>

(1) Registration

(a) bidding shall not be restricted to pre-registered firms;

(b) where registration is required, bidders: (i) shall be allowed a reasonable time to complete the registration process; and (ii) 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; and

(c) foreign bidders 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.
## Procurement Method for Works

<p>| | |</p>
<table>
<thead>
<tr>
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<tbody>
<tr>
<td>(2) Advertising</td>
<td>Invitations to bid shall be advertised in at least one widely circulated national daily newspaper allowing a minimum of thirty (30) days for the preparation and submission of bids.</td>
</tr>
<tr>
<td>(3) Pre-qualification</td>
<td>When pre-qualification shall be required for large or complex works, invitations to pre-qualify for bidding shall be advertised in at least one widely circulated national daily newspaper a minimum of thirty (30) days prior to the deadline for the submission of pre-qualification applications. Minimum experience, and technical and financial requirements, shall be explicitly stated in the pre-qualification documents.</td>
</tr>
<tr>
<td>(4) Participation by Government-owned enterprises</td>
<td>Government-owned enterprises in the country 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.</td>
</tr>
<tr>
<td>(5) Bidding Documents</td>
<td>Procuring entities shall use the appropriate standard bidding documents for the procurement of goods, works or services, acceptable to the Bank.</td>
</tr>
</tbody>
</table>
| (6) Bid Opening and Bid Evaluation | (a) bids shall be opened in public, immediately after the deadline for submission of bids;  
(b) evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents; and  
(c) contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place. |
(7) **Price Adjustment**

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

(8) **Rejection of Bids**

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

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

ECA Regional Sample Bidding Documents, modified as acceptable to the Bank, shall be used.

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.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection under a Fixed-Budget</td>
</tr>
<tr>
<td>(b) Least-Cost Selection</td>
</tr>
<tr>
<td>(c) Selection Based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
</tr>
<tr>
<td>(e) Individual Consultants</td>
</tr>
</tbody>
</table>
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.

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the 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>17,220,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consultants’ services, including the preparation of the audit under Part 5 of the Project</td>
<td>4,500,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Grants (other than Grants for civil works under Parts 3(d) and 4(e) of the Project)</td>
<td>8,200,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Grants for civil works under Parts 3(d) and 4(e) of the Project</td>
<td>2,000,000</td>
<td>100%</td>
</tr>
</tbody>
</table>
## Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Loan Allocated (expressed in Euro)</th>
<th>Percentage of Expenditures to be financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<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><strong>TOTAL AMOUNT</strong></td>
<td><strong>32,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>

### B. Withdrawal Conditions; Withdrawal Period

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 December 31, 2012.
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>
</thead>
<tbody>
<tr>
<td>On each May 15 and November 15 Beginning May 15, 2013 through November 15, 2022</td>
<td>5%</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

Section I. Definitions

1. “Beneficiary” means a physical or legal person (including a LSG (as hereinafter defined), a non-government service provider, a primary health care center, a school or a center for social work qualified to receive a Grant (as hereinafter defined) under the Project Operational and Grants Manual (as hereinafter defined), and “Beneficiaries” means more than one Beneficiary.

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


4. “Disability Fund” means the grant facility established by the Borrower pursuant to the provisions of its Law on Lottery Games, published in its Official Gazette No. 84/04, administered by MOLSP (as hereinafter defined) with the aim of financing social services extended by non-government organizations to disabled people.

5. “EMP” means the Environmental Management Plan dated February 20, 2008, prepared and adopted by the Borrower and satisfactory to the Bank, describing the environmental, social and cultural resources procedures and mitigation and monitoring measures required for the Project, including the measures and information required for the preparation of site-specific EMPs referred to in paragraph B.3, Section I of Schedule 2 to this Agreement, as the same may be amended from time to time with the prior written approval of the Bank.

6. “EU” means the European Union.

7. “Fiduciary Services Unit” and FSU” mean the Fiduciary Services Unit jointly established by the MOE, the MOH and the MOLSP pursuant to Section 4.01 (b)(i) of this Agreement, coordinating activities and centralizing the financial management, procurement and reporting functions under the Project.

8. “Fiscal Year” means the twelve (12) month period corresponding to any of the Borrower’s fiscal years, which period commences on January 1 and ends on December 31 in each calendar year.

9. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 with the modifications set forth in Section II of this Appendix.
10. “Grant” means a Grant made or proposed to be made by the MOLSP, the MOH or the MOE, as the case may be, to a Beneficiary under Parts 2(a) and (b), 3(c), 3(d), 4(c) and 4(e) of the Project.

11. “Grant Agreement” means the agreement between the MOLSP, the MOH or the MOE, as the case may be, and a Beneficiary for the purposes of providing a Grant.


13. “LSG” means a local self government, i.e., a municipal government authority.


15. “MOH” means the Borrower’s Ministry of Health or any successor thereto.

16. “MOLSP” means the Borrower’s Ministry of Labor and Social Policy, or any successor thereto.

17. “Operating Expenses” means the expenses incurred by the FSU and the line ministries to finance the cost of communications, translations, meetings, local travel, consumables and day-to-day office maintenance and administration, including operation and maintenance of equipment provided to the FSU and the line ministries under the Project, and excluding salaries of government officials and civil servants.

18. “PCU” means the Project Coordination Unit established within the MOH under the Development Credit Agreement (Serbia Health Project, Credit No. 3768-YF) between Serbia and Montenegro and the International Development Association dated June 13, 2003, pursuant to the MOH’s decision No. 500-01-138/2003-02, dated March 27, 2003.

19. “Performance and Monitoring Indicators” means the agreed performance and monitoring indicators set forth in a letter of even date herewith to be utilized by the Borrower under the Project to measure the progress in the implementation of the Project and the degree to which the objectives thereof are being achieved.


21. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated January 30, 2008, 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.

22. “Project Implementation Committee” and “PIC” mean the group of staff responsible for Project implementation, consisting of the Project administrators from the MOE, MOH and MOLSP and the manager of the FSU.

23. “Project Operational and Grants Manual” means the Manual adopted by the Borrower pursuant to Section 4.01 (c) of this Agreement, for the purposes of defining the detailed implementation arrangements of the Project, and setting forth, inter alia: (a) the detailed Project staffing plan for each stakeholder ministry; and (b) the modalities, terms and conditions for the provision of Grants, as the same may be amended from time to time by agreement between the Borrower and the Bank.

24. “Project Policy Board” means the group established under the Project pursuant to Section 4.01 (a) of this Agreement, for the purposes of providing policy guidance and strategic coordination among the different Project stakeholder ministries, and composed of representatives at the ministerial level (or the ministers’ respective designee) and one representative of the LSG.


26. “Training” means all training and training-related activities to be carried out under the Project including workshops, seminars and study tours, which are not included under goods and service providers’ contracts, and covering expenditures incurred in connection with fees, travel costs and per-diem allowances for the trainers and travel costs and per-diem allowances for the trainees, cost of training materials, space and equipment rental, and other related expenditures; all such expenditures to be based on plans (including budgets and terms of reference) to be adopted by the Borrower and satisfactory to the Bank.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Section 3.01 shall read as follows:

   “Section 3.01. Front-end Fee. The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).”
2. A new paragraph (d) is included in Section 3.02 Interest which shall read as follows:

“(d) Notwithstanding the provisions of paragraph (a) of this Section, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the Borrower shall pay the Default Interest Rate on such overdue amount in lieu of the interest rate specified in the Loan Agreement (or such other interest rate as may be applicable pursuant to Article IV as a result of a Conversion) until such overdue amount is fully paid. Interest at the Default Interest Rate shall accrue from the first day of each Default Interest Period and shall be payable semi-annually in arrears on each Payment Date.”

3. Appendix “Definitions” is amended as follows:

(a) Paragraph 19 “Commitment Charge” is deleted, and subsequent paragraphs are re-numbered accordingly.

(b) New paragraphs 27, 28, 29 and 30 are added to the Appendix:

“27. “Default Interest Period” means for any overdue amount of the Withdrawn Loan Balance, each Interest Period during which such overdue amount remains unpaid; provided, however, that the first such Default Interest Period shall commence on the 31st day following the date on which such amount becomes overdue, and the final such Default Interest Period shall end on the date at which such amount is fully paid.”

“28. “Default Interest Rate” means for any Default Interest Period:

(a) in the case of a Variable Spread Loan: Default LIBOR plus the Variable Spread plus one half of one percent (0.5%);

(b) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Variable Rate immediately prior to the application of the Default Interest Rate: the Default Variable Rate plus one half of one percent (0.5%); and

(c) in the case of a Fixed Spread Loan for which interest on the amount of the Withdrawn Loan Balance to which the Default Interest Rate applies was payable at a Fixed Rate immediately prior to the application of the Default Interest Rate: Default LIBOR plus the Fixed Spread plus one half of one percent (0.5%).”

“29. “Default LIBOR” means LIBOR for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default LIBOR shall be equal to LIBOR for the Interest Period in which the amount referred to in paragraph (d) of Section
3.02 first becomes overdue.

“30. “Default Variable Rate” means the Variable Rate for the relevant Interest Period; it being understood that for the initial Default Interest Period, Default Variable Rate shall be equal to the Variable Rate for the Interest Period in which the amount referred to in paragraph (d) of Section 3.02 first becomes overdue.”

(c) Paragraph 43 “Fixed Spread” (as re-numbered) is amended to read as follows:

“43. “Fixed Spread” means the Bank’s fixed spread for the initial Loan Currency in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement; provided, that upon a Currency Conversion of all or any amount of the Unwithdrawn Loan Balance, such fixed spread shall be adjusted on the Execution Date in the manner specified in the Conversion Guidelines; and provided further that notwithstanding the foregoing, for purposes of determining the Default Interest Rate applicable to an amount of the Withdrawn Loan Balance on which interest is payable at a Fixed Rate, the “Fixed Spread” means the Bank’s fixed spread in effect at 12:01 a.m. Washington, D.C. time, one calendar day prior to the date of the Loan Agreement, for the Currency of denomination of such amount.”

(d) Paragraph 56 “LIBOR Reset Date” (as re-numbered) is amended to read as follows:

“56. “LIBOR Reset Date” means: (a) for any Loan Currency other than Euro, the day two London Banking Days prior to the first day of the relevant Interest Period (or: (i) in the case of the initial Interest Period of a Variable Spread Loan, the day two London Banking Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two London Banking Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period of a Fixed Spread Loan, the day two London Banking Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided, that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two London Banking Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to any Approved Currency other than Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided, that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two London Banking Days prior to the Conversion Date); (b) for Euro, the day two Target Settlement Days prior to the first day of the relevant Interest
Period (or: (i) in the case of the initial Interest Period for a Variable Spread Loan, the day two Target Settlement Days prior to the fifteenth day of the month preceding the month in which the Loan Agreement is signed; provided that if the date of the Loan Agreement falls on or after the fifteenth day of the month in which the Loan Agreement is signed, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the fifteenth day of such month; (ii) in the case of the Initial Interest Period for a Fixed Spread Loan, the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Loan Agreement is signed, whichever day immediately precedes the date of the Loan Agreement; provided that if the date of the Loan Agreement falls on the first or fifteenth day of such month, the LIBOR Reset Date shall be the day two Target Settlement Days prior to the date of the Loan Agreement; and (iii) if the Conversion Date of a Currency Conversion of an amount of the Unwithdrawn Loan Balance to Euro falls on a day other than a Payment Date, the initial LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the first or fifteenth day of the month in which the Conversion Date falls, whichever day immediately precedes the Conversion Date; provided that if the Conversion Date falls on the first or fifteenth day of such month, the LIBOR Reset Date for the Approved Currency shall be the day two Target Settlement Days prior to the Conversion Date; and (c) notwithstanding sub-paragraphs (a) and (b) of this paragraph, if, for a Currency Conversion to an Approved Currency, the Bank determines that market practice for the determination of the LIBOR Reset Date is on a date other than as set forth in said sub-paragraphs, the LIBOR Reset Date shall be such other date, as further specified in the Conversion Guidelines.”

(e) Paragraph 66 “Loan Payment” (as re-numbered) is amended to read as follows:

“66. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

(f) Paragraph 71 “Payment Date” (as re-numbered) is amended to read as follows:

“71. “Payment Date” means each date specified in the Loan Agreement occurring on or after the date of the Loan Agreement on which interest is payable.”