

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3636 YF

Development Credit Agreement

(Republic of Serbia Education Improvement Project)

between

FEDERAL REPUBLIC OF YUGOSLAVIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 14, 2002

Public Disclosure Authorized



CREDIT NUMBER 3636 YF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 14, 2002, between FEDERAL REPUBLIC OF YUGOLASVIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the government of the Republic of Serbia with the Borrower's assistance and, as part of such assistance, the Borrower will make available to the government of the Republic of Serbia, through the Subsidiary Credit Agreement (as defined herein after), the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all countries."; and

(b) The second sentence of Section 5.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “Dinar” means the currency of the Borrower;
- (b) “Euro” and “ € ” each means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union;
- (c) “Financial Monitoring Report” means each report referred to and prepared in accordance with Section 4.02 (a) of this Agreement;
- (d) “MOES” means the Ministry of Education and Sports of the Republic of Serbia, or any successor thereto;
- (e) “Operational Manual” means the manual dated February 1, 2002, adopted by the MOES and satisfactory to the Association, setting forth the operational, financial and administrative procedures, rules, and documents related to Project implementation, as the same may be amended from time to time with the Association’s agreement;
- (f) “PCU” means a project coordination unit established by and within the MOES, and referred to in Section 3.03 (b) of this Agreement, or any successor thereto;
- (g) “School Grant” means a grant made or proposed to be made by the MOES under Part A of the Project to a qualified beneficiary, and financed out of the proceeds of the Credit allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement; and the term “School Grant Agreement” means the agreement between the MOES and each recipient of the School Grant;
- (h) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(i) "Subsidiary Credit Agreement" means the agreement to be entered into between the Borrower and the government of the Republic of Serbia pursuant to Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Credit Agreement; and "Subsidiary Credit" means a loan to be made by the Borrower out of the proceeds of the Credit to the government of the Republic of Serbia under a Subsidiary Credit Agreement.

Section 1.03. Each reference in the General Conditions to the "Project implementation entity" shall be deemed as a reference to the government of the Republic of Serbia.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to eight million Special Drawing Rights (SDR 8,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, services and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association should so agree, amounts to be paid) on account of withdrawals made by a Beneficiary under a School Grant.

(b) The Borrower may, for the purposes of each of the Project, open and maintain in Euro a special deposit account in a commercial bank, acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15, commencing October 15, 2012, and ending April 15, 2022. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The Minister of Finance and Economy of the Republic of Serbia and any person or persons whom he or she shall designate in writing is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

Section 2.09. The Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall ensure that the government of the Republic of Serbia shall carry out the Project with due diligence and efficiency, in conformity with appropriate administrative, financial, and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project, or shall ensure that such resources are provided by the government of the Republic of Serbia.

Section 3.02. (a) The Borrower shall relend the proceeds of the Credit to the government of the Republic of Serbia under a subsidiary credit agreement (Subsidiary Credit Agreement) to be entered into between the Borrower and the government of the Republic of Serbia, under terms and conditions which shall have been approved by the Association, and which shall include the following:

- (i) the Borrower shall relend to the government of the Republic of Serbia an amount equivalent to the amount of the Credit;
- (ii) the term of the Subsidiary Credit shall be twenty (20) years, including a ten (10) year grace period;
- (iii) the Borrower shall charge the government of the Republic of Serbia a commitment charge at a rate equal to the rate payable under Section 2.04 of this Agreement, on the principal amount of the Subsidiary Credit not withdrawn from time to time;
- (iv) the Borrower shall charge the government of the Republic of Serbia a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time at a rate equal to the rate payable under Section 2.05 of this Agreement; and
- (v) the principal amount of the Subsidiary Credit shall be repayable in currency or currencies equivalent in SDR (determined as of the date or respective dates of

repayment), in accordance with Sections 2.07 and 2.09 of this Agreement.

(b) The Borrower shall exercise its rights under the Subsidiary Credit Agreement in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal or waive the Subsidiary Credit Agreement, or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01, and except as the Association and Borrower shall otherwise agree, the Borrower shall ensure that the government of the Republic of Serbia:

(a) carries out the Project in accordance with the terms of this Agreement and the Operational Manual;

(b) maintains, during the term of the Project, a project coordination unit (PCU), with staff and resources necessary and appropriate for the Project, and operates the PCU in accordance with the Operational Manual; and

(c) awards School Grants in accordance with the selection criteria and procedures, and on terms and conditions set forth in the Operational Manual, and satisfactory to the Association.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.05. The Borrower shall ensure that the government of the Republic of Serbia:

(a) maintains policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon from time to time between the Borrower and the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepares, under terms of reference satisfactory to the Association, and furnish to the Association, by June 30, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) above, 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) reviews with the Association, by July 31, 2004, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, 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 Association's views on the matter.

Section 3.06. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall ensure that the government of the Republic of Serbia:

(a) prepares, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) affords the Association a reasonable opportunity to exchange views with the government of the Republic of Serbia on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall ensure that the government of the Republic of Serbia maintains a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall ensure that the government of the Republic of Serbia:

(i) has the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnishes to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnishes to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall ensure that the government of the Republic of Serbia:

- (i) maintains or causes to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retains, until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enables the Association's representatives to examine such records; and
- (iv) ensures that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the reporting obligations set forth in Sections 3.05 and 3.06 of this Agreement, the Borrower shall ensure that the government of the Republic of Serbia prepares and furnishes to the Association a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely that the government of the Republic of Serbia shall have failed to perform any of its obligations under the Subsidiary Credit Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Subsidiary Credit Agreement has been executed on behalf of the Borrower and the government of the Republic of Serbia, and all conditions to the effectiveness of such agreement have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Subsidiary Credit Agreement has been duly authorized or ratified by the Borrower and government of the Republic of

Serbia, respectively, and is legally valid and binding upon the Borrower and government of the Republic of Serbia, in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Deputy Prime Minister is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Federal Government
Bul. Mihajila Pupina 2
11070 Belgrade
Federal Republic of Yugoslavia

Facsimile:

(381 11) 311-2979

For the Association:

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

Cable address:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the City of Belgrade, Federal Republic of Yugoslavia, as of the day and year first above written.

FEDERAL REPUBLIC OF YUGOSLAVIA

By /s/ Miroljub Labus

Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

By /s/ Christiaan J. Poortman

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) School Grants under Part A of the Project	3,590,000	90%
(2) Goods	640,000	100% of local expenditures, and 95% of foreign expenditures
(3) Consultants' services, including auditing services	2,390,000	70% for services by individuals, and 80% for services by firms
(4) Training	240,000	100%
(5) Incremental operating costs December and	720,000	87% of expenditures incurred until 31, 2003, 60% of expenditures incurred until June 30, 2005, 30% of expenditures incurred thereafter
(6) Unallocated	<u>420,000</u>	
TOTAL	<u>8,000,000</u>	

2. For the purposes of this Schedule:

(a) the term "Training" means the fees of educational or other institutions and organizations that provide training, cost of study tours, cost of workshops, related travel expenditures, boarding, lodging and per diem allowances of the trainees;

(b) the term "Incremental operating costs" means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the MOES with respect to Project implementation, management and monitoring, including office space, office supplies, utilities, publication of procurement notices, vehicle operation, travel and supervision costs, but excluding salaries of officials and employees of the Borrower and Republic of Serbia; and

(c) the term "local expenditures" means expenditures in the currency of the Borrower for goods supplied from the territory of the Borrower; the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods supplied from the territory of any country other than that of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 400,000, may be made in respect of Categories (2), (3) and (5), set forth in the table in paragraph 1 of this Schedule, on account of payments made for expenditures before that date but after December 3, 2001.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each; (b) services for individuals costing less than \$50,000 equivalent each, and firms costing less than \$100,000 equivalent each; (c) School Grants in the amount less than \$10,000 equivalent each; and (d) incremental operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Republic of Serbia to further define and begin to implement a process of education reform through strengthening institutional capacity, improving information collection, and decentralizing education responsibilities and financing.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: School Improvement Grants

Provision of grants to the Beneficiaries to improve teaching and learning in selected primary and secondary schools in the Republic of Serbia, provide incentives and tools to local communities to take greater responsibility for primary and secondary education, and promote innovation and creativity in the general education.

Part B: Standards and Assessment Development

Development of internationally recognized education standards, creation of a modern education assessment and examination system, and establishment and development of a professional education standards and assessment service, through the provision of goods, services and training.

Part C: Education Information System

Development of effective resource management and monitoring capacity within the MOES, through the provision of goods and services.

Part D: Education Decentralization

Strengthening of the effectiveness of the primary and secondary education sectors in the Republic of Serbia, through needs assessment, system design and capacity building at local levels, and development of monitoring and evaluation capacity of the MOES, through the provision of goods, services and training.

Part E: Project Management

Assistance to the MOES in the management and coordination of the Project, through the provision of consulting services, including the audit of

accounts and financial statements referred to in Section 4.01 (b) of this Agreement, and goods.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

1. Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.
2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 per contract, up to an aggregate amount not to exceed \$150,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 per contract, up to an aggregate amount not to exceed \$220,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract awarded in accordance with the provisions of Section I, Part B, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts procured under each Part C.1 and C.2, the following procedures shall apply:

- (i) prior to the execution of any contract procured under the shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received, and a copy of the specifications and the draft contract; and
- (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services, including software development and training, shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultant services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality-and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for surveys, studies and information campaigns may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

2. Least-cost Selection

Services for the Project audits may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost \$100,000 equivalent or more, and the first two contracts for: the employment of consulting firms procured under Least Cost Selection and Consultants' Qualifications methods, estimated to cost up to \$100,000 equivalent, the procedures set

forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost \$50,000 equivalent or more, and for the contracts for employment of individual consultants estimated to cost less than \$50,000 equivalent, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

Section III. Procurement under the School Grants (Part A of the Project)

Procurement by the beneficiaries of the School Grants under Part A of the Project shall be undertaken in a manner consistent with the requirements set forth in: (a) paragraphs 3.5, 3.6 and 3.15 of the Guidelines with respect to goods and minor works; and (b) paragraphs 3.1, 3.7, and 5.1 through 5.3 of the Consultants Guidelines with respect of consultants' services and training, and consistent with the additional terms, conditions, and procedures set forth in the Operational Manual, which shall include the following provisions:

(a) goods and minor works, estimated to cost less than \$6,000 equivalent per contract, up to an aggregate amount not to exceed \$3,000,000 equivalent, may be procured under contracts awarded on the basis of the receipt and comparison of price quotations obtained from at least three suppliers; and

(b) consultants' services and training, estimated to cost less than \$6,000 equivalent per contract, up to and aggregate amount not to exceed \$1,500,000 equivalent, may be procured under contracts awarded on the basis of comparison, where available, of up to three relevant consultant candidates (firms or individuals, as appropriate) to ensure that the prospective consultants have the qualifications, experience, methodology and capacity to properly carry out the services at reasonable cost.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, services, grants, training and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to □680,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to □340,000 until the aggregate amount of withdrawals from the Credit Account of amounts allocated to the Special Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 800,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association, on behalf of the Borrower, a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the government of the Republic of Serbia shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the government of the Republic of Serbia shall have requested on behalf of the Borrower, and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the government of the Republic of Serbia on behalf of the Borrower out of the Special Account, the Borrower shall ensure that the government of the Republic of Serbia, at such time as the Association shall reasonably request, furnishes to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower or the government of the Republic of Serbia on behalf of the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the government of the Republic of Serbia shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of

expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the said eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.