Development Credit Agreement

(First Programmatic Private and Financial Development Policy Credit)

between

SERBIA AND MONTENEGRO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 8, 2005
WHEREAS (A) the Association has received from the Borrower and the Republic of Serbia a letter dated October 20, 2005, describing a program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty, through strengthening the fiscal discipline in enterprise, energy and transport sectors, and attracting foreign direct investment; and building a more efficient and stable financial sector and improving access to finance (the Program), declaring the Borrower’s and the Republic of Serbia’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower and the Republic of Serbia have carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association, and have maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit as hereinafter provided;

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 May 1, 2004), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:
“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency specified in Section 2.02 (b) of the Development Credit Agreement; provided, however, that withdrawals in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) 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, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted in its entirety and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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

(a) “CSD” means the currency of the Republic of Serbia; and

(b) “Euro ” 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.
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 the Development Credit Agreement, an amount in various currencies equivalent to thirty eight million Special Drawing Rights (SDR 38,000,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Credit Account shall be deposited by the Association into an account in Euro designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Credit into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Association.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be March 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 cancelled; 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 February 15 and August 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15, commencing February 15, 2016 and ending August 15, 2025. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. The Borrower shall make available to the Republic of Serbia the equivalent of the proceeds of the Credit, under terms and conditions satisfactory to the Association, such terms to include the provisions set forth in Article II of this Agreement.
Section 3.03. (a) Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request.

(b) Upon the Association’s request, the Borrower shall:

(i) have the deposit account referred to in Section 2.02 (b) audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than four (4) months after the end of the Borrower’s fiscal year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning the deposit account referred to in Section 2.02 (b) and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; Termination

Section 5.01. 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 following the acceptance by the Government of the Republic of Serbia of the arrangements referred to in Section 3.02 of this Agreement, the Borrower has enacted a law or laws related to the above arrangements, and satisfactory to the Association.

Section 5.02. 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 VI

Representative of the Borrower; Addresses

Section 6.01. The Minister for International Economic Relations of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry for International Economic Relations of Serbia and Montenegro
Bul. Mihajila Pupina 2
Belgrade 11070
Serbia and Montenegro

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 248423 (MCI) or (202) 477-6391
Washington, D.C. 64145 (MCI)
IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Belgrade, Serbia and Montenegro, as of the day and year first above written.

SERBIA AND MONTENEGRO

By /s/ Predrag Ivanovic
Authorized Representative

ASSOCIATION

INTERNATIONAL DEVELOPMENT

By /s/ Shigeo Katsu
Authorized Representative
SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures in CSD, or for goods or services supplied from the territory of the Borrower.

2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;

3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<table>
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<th>Group</th>
<th>Subgroup</th>
<th>Description of Items</th>
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<td>Alcoholic beverages</td>
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<td>121</td>
<td>-</td>
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<td>122</td>
<td>-</td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
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<tr>
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<td>-</td>
<td>Radioactive and associated materials</td>
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<td>Group</td>
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</tr>
<tr>
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<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
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<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
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<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
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<tr>
<td>971</td>
<td>-</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
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</tbody>
</table>

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term “environmentally hazardous goods” means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;

6. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.
SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

1. The macroeconomic policy framework of the Borrower and the Republic of Serbia is satisfactory, as measured on the basis of indicators agreed between the Borrower and the Republic of Serbia, and the Association.

2. (a) The Government of the Republic of Serbia has proposed to the Parliament of the Republic of Serbia to decrease the direct subsidies to socially-owned enterprises undergoing restructuring from CSD 5 billion, allocated for such purposes in the 2005 State Budget, to CSD 3.85 billion in the 2006 State Budget.

   (b) The Government of the Republic of Serbia has agreed to make available CSD 4.5 billion from the Transition Fund for severance payments to employees of socially-owned enterprises, such enterprises having been set forth in the list agreed upon by the Association.

3. Starting December 1, 2004: (i) the Privatization Agency of the Republic of Serbia (PA) has offered for sale no less than eighteen socially-owned enterprises and sold at least nine socially-owned enterprises through its tender program; (ii) the PA offered for sale through auctions no less than 180 socially-owned enterprises, and sold at least 40 percent of such socially-owned enterprises; (iii) the PA has offered for sale no less than eight socially-owned enterprises, or significant parts thereof (i.e., representing no less than 50 percent of the total assets), from the list of enterprises undergoing restructuring, using, as applicable, tenders, auctions and asset sales procedures, and sold at least three socially-owned enterprises set forth in the restructuring list; and (iv) Republic of Serbia owned or controlled creditors have requested the courts of the Republic of Serbia to initiate bankruptcy proceedings for at least six large state owned enterprises set forth in the restructuring list.


5. The Government of the Republic of Serbia has launched an international tender to engage a financial advisor for Elektroprivreda Srbije, in accordance with terms of references and procedures satisfactory to the Association.
6. Zeleznice Srbije (ZS) has reduced ZS staff engaged in core ZS activities by 1900, or 7.2 percent of total ZS core staff of 26,212 employed as of January 1, 2005, and ZS and the Government of the Republic of Serbia have adopted the 2005 Business Plan, satisfactory to the Association.

7. The Agency for Deposit Insurance of the Republic of Serbia has offered for sale, on behalf of the Government of the Republic of Serbia, a majority (i.e., more than 50 percent) of Vojvodjanska banka shares.

8. The amendments to the Insurance Law have been enacted, and are satisfactory to the Association.

9. The Supervisory Review Committee of the National Bank of Serbia (NBS) Banking Supervision Department and the Governor of the NBS have adopted the second phase of the Supervisory Development Plan, satisfactory to the Association, and the NBS Banking Supervision Department has continued its implementation.