

CONFORMED COPY

LOAN NUMBER 7695 YF

Loan Agreement

(Additional Financing for the Serbia Health Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Dated April 14, 2009

LOAN NUMBER 7695 YF

LOAN AGREEMENT

Agreement dated April 14, 2009, entered into between REPUBLIC OF SERBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). 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 ten million five hundred thousand Euros (EUR 10,500,000), 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 Variable 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower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 February 15 and August 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 withdrawn and outstanding 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 4.05 (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 - 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 MOH and the PCU, 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 - TERMINATION

- 4.01. 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:

Telex:

Facsimile:

INTBAFRAD
Washington, D.C.

248423(MCI) or
64145(MCI)

(1-202) 477-6391

AGREED at Belgrade, Republic of Serbia, as of the day and year first above written.

REPUBLIC OF SERBIA

By /s/ Diana Dragutinovic

Authorized Representative

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

By /s/ Neil Simon M. Gray

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to build capacity to develop a sustainable, performance-oriented health care system by restructuring health care services and improving financing, management and decision making in the Borrower's health care system.

The Project consists of the following parts:

Part A: Health Finance, Policy and Management

1. Provision of goods, consultants' services and Training to develop an integrated health management information technology, including: (a) creating a network linking 400 health care providers into a single communication system with a view to, *inter alia*, allowing testing of new discharge forms; (b) installing servers, hardware and local area networks (LAN) in hospitals; (c) developing hospital management software, including the upgrade and conversion of two (2) software currently used in four (4) hospitals into a single hospital management information system, the license for diagnosis-related groups software, the replication of hardware and the upgrade of hospital management software in at least five (5) additional hospitals; and (d) upgrading databases of the Health Insurance Fund and the Institute of Public Health, including members, claims and provider databases, and connecting said databases with MOH, with a view to improving the monitoring and evaluation of payments impact on the Health Insurance Fund expenditures.

2. Provision of goods, consultants' services and Training to strengthen capacity in implementing institutional and organizational reforms towards greater financial and management autonomy in hospitals and improved quality and productivity in health care services, including: (a) establishing criteria for evaluating the performance of health sector managers; (b) supporting hospitals in staff-mix adjustments and establishing a hospital payment system designed to encourage staff reward for better performance and patient satisfaction; (c) supporting health facilities in adjusting department (day care and day surgery) and bed structure following the Borrower's health sector restructuring strategy, including the development of partnerships with private providers to improve hospital productivity; (d) developing and implementing clinical pathways in hospitals based on the clinical practice guidelines produced under the Original Project and with a particular focus on rational pharmacotherapy; and (e) expanding the accreditation process for health care providers initiated under the Original Project to selected hospitals.

3. Provision of goods, consultants' services and Training to strengthen the Borrower's capacity in monitoring and evaluating the impact of health care payment reform on the overall health sector policy goals, with a particular emphasis on expenditures and the use of pharmaceuticals, including technical assistance to: (a) health

care facilities to monitor, evaluate and refine diagnosis-related groups; (b) the Borrower's Health Insurance Fund to build analytical capacity and create a provider performance analysis department in charge of data analysis, auditing of provider results and presenting results to the Health Insurance Fund and hospitals; (c) MOH to strengthen its capacity to implement the provider payment reform; and (d) the national health account team within the Institute of Public Health, to monitor and evaluate, under MOH supervision, the impact of diagnosis-related groups on the health sector and on total health expenditures.

Part B: Project Management, Monitoring and Evaluation

Support to the PCU for the management and implementation of the Project, and development and maintenance of Project monitoring and evaluation, through the provision of goods, consultants' services and Training and the financing of Operating Expenses, including the preparation of the audit referred to in paragraph B.3, Section II of Schedule 2 to this Agreement.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. MOH, through the PCU, shall be responsible for implementing and supervising activities under the Project. To this end, the Borrower shall ensure that MOH maintains, throughout the duration of the Project, the PCU, under terms of reference and with staff and other resources required for Project implementation satisfactory to the Bank.

2. MOH, through the PCU, shall, as needed, coordinate the implementation of the Project with the Health Insurance Fund, the Institute of Public Health and other health care institutions.

3. The Borrower shall, and shall cause the MOH and the PCU to:

(a) duly perform all obligations under the Operational 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 Operational Manual or the EMP or any provisions of any one thereof, except with the prior written approval of the Bank.

B. Anti-Corruption

The Borrower shall, and shall cause MOH and the PCU to ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. 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 prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall 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. 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.

Section III. Procurement

A. General

1. **Goods.** All goods 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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method for Goods	
(a)	Shopping
(b)	Direct Contracting

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 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.

Procurement Methods	
(a)	Selection under a Fixed-Budget
(b)	Least-Cost Selection

Procurement Methods	
(c)	Selection Based on Consultants' Qualifications
(d)	Single Source Selection
(e)	Individual Consultants

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.

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed (Exclusive of Taxes)
(1) Goods, Consultants' Services, Training and Operating Expenses	10,473,750	100%
(2) Front-end Fee	26,250	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed (Exclusive of Taxes)
(3) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount payable pursuant to Section 2.07(c) of this Agreement in accordance with Section 4.05(c) of the General Conditions
TOTAL AMOUNT	<u>10,500,000</u>	

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, 2011.

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.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each February 15 and August 15 Beginning August 15, 2014 Through and including August 15, 2025	4.17%
On February 15, 2026	4.09%

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.

5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “EMP” means the Environmental Management Plan, satisfactory to the Bank, prepared and adopted by the Borrower on February 21, 2003, describing the environmental mitigation, monitoring and institutional measures under the Project, as the same may be amended from time to time subject to the Bank’s prior written approval.
5. “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.
6. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008) with the modification set forth in Section II of this Appendix.
7. “Health Insurance Fund” means the Borrower’s Health Insurance Fund established pursuant to the Borrower’s Law on Health Insurance published on April 4, 1992 (Official Gazette of the Republic of Serbia No. 18/1992), as amended, or any successor or successors thereto.
8. “Institute of Public Health” means the Borrower’s Institute of Public Health (“Dr Milan Jovanovic Batut”) established pursuant to the Borrower’s Law on Health Care published on December 2, 2005 (Official Gazette of the Republic of Serbia No. 107/05), as amended, or any successor or successors thereto.
9. “MOH” means the Borrower’s Ministry of Health, or any successor or successors thereto.

10. “Operational Manual” means the manual describing the operational rules and procedures of Project implementation, satisfactory to the Bank, adopted by MOH on March 7, 2003, as the same may be amended from time to time subject to the Bank’s prior written approval.
11. “Operating Expenses” means the expenses incurred by the PCU to finance the cost of communications, translations, meetings, local travel, consumables and day-to-day office maintenance and administration, including office rental, operation and maintenance of equipment provided to the PCU under the Project, and excluding salaries of government officials and civil servants.
12. “Original Credit Agreement” means the Development Credit Agreement for a Serbia Health Project between Serbia and Montenegro and the International Development Association, dated June 13, 2003, as amended to the date of this Agreement (Credit No. 3768 YF).
13. “Original Project” means the Project described in the Original Credit Agreement.
14. “PCU” means the Project Coordination Unit established within MOH under the Original Credit Agreement, pursuant to MOH’s decision No. 500-01-138/2003-02 dated March 27, 2003.
15. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
16. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 19, 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.
17. “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. Modification to the General Conditions

The modification to the General Conditions is as follows, namely that the definition of the term “Conversion Date” set forth in the Appendix to the General Conditions is modified to read as follows:

“ ‘Conversion Date’ means, in respect of a Conversion, the Execution Date (as herein defined) or such other date as requested by the Borrower and accepted by the Bank, on which the Conversion enters into effect, and as further specified in the Conversion Guidelines.”