

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7467-YF

Loan Agreement

(Additional Financing for the Irrigation and Drainage Rehabilitation Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated July 27, 2007

LOAN NUMBER 7467-YF

LOAN AGREEMENT

Agreement dated July 27, 2007, between the REPUBLIC OF SERBIA (“Borrower”) and the 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 Euro thirty-six million eight hundred thousand (€36,800,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 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 Commitment Charge payable by the Borrower shall be equal to three-fourths of one percent (3/4 of 1%) per annum on the Unwithdrawn Loan Balance, subject to any waiver of a portion of such charge as may be determined by the Bank from time to time.
- 2.04. The Front-end Fee payable by the Borrower shall be equal to one percent (1.0%) of the Loan amount, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time.
- 2.05. 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, subject to any

waiver of a portion of such interest as may be determined by the Bank from time to time; 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.

- 2.06. The Payment Dates are February 15 and August 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 3 to this Agreement.
- 2.08. (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 - PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project under the overall direction and responsibility of the MAFWM 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 ninety (90) 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/ Mirko Cvetkovic
Authorized Representative

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By /s/ Simon Gray
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to reduce the risk of damage from flooding to land, crops, property and infrastructure, as well as reducing the risk of life loss from flooding in Project areas, through the significant expansion in the geographical scope of the flood protection activities under the Original Project.

The Project consists of the Original Project and the following additional parts:

Part 1: Rehabilitation and Improvement of Flood Control Infrastructure

Rehabilitation of flood control structures in the Danube, Tisa, Sava, Tamis, Velika Morava and other smaller river basins in Vojvodina and Central Serbia, to provide at least a 1 in 50 year flood protection for agricultural and minor settlements and at least 1 in 500 per year protection for large settlements and industry to about 500,000 hectares and a population of about 1.80 million, through the financing of goods, works, consultants' services, training and incremental operating costs.

Part 2: Institutional Strengthening and Capacity Building

Strengthening the capacity of the Borrower's water sector institutions by pilot testing the formation and operation of about four (4) water boards for drainage and irrigation management at third and lower levels of channels, with a view to expand the concept and approach to water management in the Project areas by testing the possibility of converting the water companies into water boards or by establishing new water boards based on the national and international best practices, through the financing of goods and consultants' services.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

The Borrower shall: (i) implement the Project in accordance with the POM, including the terms and conditions set forth in the EMP; and (ii) maintain, during the term of the Project, the PIT, with authority, staff and resources necessary and appropriate for the Project, and satisfactory to the Bank.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

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 the Monitoring and Evaluation Indicators. 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.

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 upon the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank as part of the Project Report 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.

C. Mid-Term Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable them to monitor and evaluate on an ongoing basis, in accordance with the Monitoring and Evaluation 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, by June 30, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section C, 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, by September 30, 2008, or such later date as the Bank shall request, the report referred to in paragraph (b) of this Section C 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.

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 procedures.

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.

Procurement Method	
(a)	National Competitive Bidding, subject to the additional procedures set forth in the Annex to this Schedule 2
(b)	Shopping
(c)	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 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.

Procurement Methods	
(a)	Selection under a Fixed-Budget
(b)	Least-Cost Selection
(c)	Selection Based on Consultants' Qualifications

Procurement Methods	
(d)	Single Source Selection
(e)	Individual Consultants, including selection on a sole-source basis

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
(1) Works	28,800,000	76%
(2) Goods	6,100,000	100%
(3) Consultants' services, including auditing services	1,000,000	100%
(4) Training	100,000	100%

Category	Amount of the Loan Allocated (expressed in Euro)	Percentage of Expenditures to be financed
(5) Incremental operating Costs	800,000	100%
(6) Front-end Fee	0	Amount payable pursuant to Section 2.04 of this Agreement in accordance with Section 2.07 (b) of the General Conditions
(7) Premia for Interest Rate Caps and Interest Rate Collars	0	Amount due under Section 2.08 (c) of this Agreement
TOTAL AMOUNT	<u>36,800,000</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 May 31, 2011.

C. Definitions

For the purposes of this Schedule:

(a) “incremental operating costs” mean the expenditures incurred to finance the reasonable and necessary incremental expenditures incurred by the MAFWM, the MEP, the PIT and other agencies of the Borrower with respect to Project implementation, management and monitoring, including office space, office supplies, vehicle operation and travel costs, communication expenses, and translation; and

(b) the term “training” means the expenditures incurred to finance the cost of the training, workshops, seminars and study tours, and other training activities not included under goods and service providers’ contracts, to be carried out under the Project, including 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; as all such expenditures shall be based on annual

plans adopted by the MAFWM and satisfactory to the Bank, which shall include proposed budgets and terms of reference.

ANNEX

For the purposes of using National Competitive Bidding procedures, the following shall apply:

(a) Registration

- (i) Bidding shall not be restricted to pre-registered firms.
- (ii) Where registration is required, bidders: (1) shall be allowed a reasonable time to complete the registration process; and (2) 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.
- (iii) Foreign bidders not from the territory of the Borrower 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.

(b) Advertising

Invitations to bid in Serbian shall be advertised in at least one (1) widely circulated local daily newspaper available over the territory of the Borrower allowing a minimum of thirty (30) days for the preparation and submission of bids.

(c) Participation by Publicly-owned enterprises

Publicly-owned enterprises 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.

(d) Bidding Documents

Procuring entities shall use the appropriate standard bidding documents for the procurement of works or services, acceptable to the Bank.

(e) Bid Opening and Bid Evaluation

- (i) Bids shall be submitted in a single envelope containing the bidder's qualification information, technical and price bids, which shall be opened simultaneously at the public bid opening.

- (ii) Bids shall be opened in public, immediately after the deadline for submission of bids. The name of the bidder, the total amount of each bid and any discounts offered shall be read aloud and recorded in the minutes of the public bid opening.
- (iii) Evaluation of bids shall be made in strict adherence to the monetarily quantifiable criteria declared in the bidding documents. No merit point system will be used.
- (iv) Extensions of bid validity will be allowed once only for not more than 30 days. No further extensions shall be requested without the prior approval of the Bank.
- (v) Contracts shall be awarded to the qualified bidder having submitted the lowest-evaluated, substantially responsive bid and no negotiation shall take place.

(f) Price Adjustment

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

(g) Rejection of Bids

- (i) All bids shall not be rejected and new bids solicited without the Bank's prior concurrence.
- (ii) When the number of bids received is less than three (3), re-bidding shall not be carried out without the Bank's prior concurrence.

(h) Securities

Bid security shall not exceed 3 percent (3%) of the estimated cost of the contract and performance security not more than ten percent (10%) of this cost. No advance payment at the amount of more than ten percent (10%) of the contract price shall be made to contractors without a suitable advance payment security. These securities shall be included in the bidding documents in a text and format acceptable to the Bank.

The Regional Sample Bidding Documents for the Europe and Central Asia Region of the Bank, modified as acceptable to the Bank, shall be used.

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; and 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 on August 15, 2012 through August 15, 2023	4.17%
On February 15, 2024	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.

APPENDIX

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. “DoW” means the Directorate of Water, a directorate under the MAFWM (as hereinafter defined), or any successor or successors thereto.
5. “EMP” means the environmental management plan included in the POM (as hereinafter defined), which describes the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Bank.
6. “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.
7. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through October 15, 2006).
8. “MAFWM” means the Ministry of Agriculture, Forestry and Water Management of the Borrower, or any successor or successors thereto.
9. “MEP” means the Ministry of Environmental Protection of the Borrower, or any successor or successors thereto.
10. “Monitoring and Evaluation Indicators” means the agreed performance monitoring and evaluation 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.
11. “Original Financing Agreement” means the Development Credit Agreement No. 4105-YF (Serbia Irrigation and Drainage Rehabilitation Project) between Serbia

and Montenegro and the International Development Association, dated, September 8, 2005.

12. “Original Project” means the Project described in the Original Financing Agreement.
13. “PIT” means the project implementation team appointed by the MAFWM/DoW to assist in the implementation of the Project.
14. “POM” means the project operation manual adopted by the MAFWM in February 2006, setting forth procedures and rules related to Project implementation, as the same may be amended from time to time.
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 May 9, 2007, 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.