Re: SECO TF Grant No. TFOA 7328
Serbia Public Sector Accounting Reform Technical Assistance
Letter Agreement

Your Excellency:

In response to the request for financial assistance made on behalf of the Republic of Serbia ("Recipient"), I am pleased to inform you that the International Bank for Reconstruction and Development ("World Bank"), acting as administrator of grant funds provided by the Swiss Confederation as represented by the State Secretariat for Economic Affairs ("Donor" or "SECO") under the Strengthening Accountability and the Fiduciary Environment in Southeast Europe and Central Asia Trust Fund ("SAFE TF"), proposes to extend to the Recipient a grant in an amount not to exceed one million three hundred fifty thousand United States Dollar (USD 1,350,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within 60 days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

By: Cyril Muller
Regional Vice President
Europe and Central Asia Region

AGREED:

REPUBLIC OF SERBIA

By:Authorized Representative

Name Dušan Vujović
Title Minister of Finance
Date: April 19, 2018

cc: Mr. Werner GRUBER, Executive Director, The World Bank

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, and Disbursement Guidelines for Investment Project Financing, dated February 2017
(3) Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016
Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement.

(a) “BSL” means Budget System Law, the Recipient’s primary public financial management law which covers fiscal strategy and rules, budget planning, preparation, adoption and execution, both at national and subnational levels, and with regard to the mandatory social insurance scheme.

(b) “CFU” means the Central Fiduciary Unit referred to in Section 2.03 of the Annex to this Agreement, or any successor or successors thereto, acceptable to the Bank.

(c) “IPSAS” means International Public Sector Accounting Standards.

(d) “ICT” means information communication technology.

(e) “Ministry of Finance” or “MOF” means the Recipient’s Ministry of Finance, or any successor or successors thereto, acceptable to the Bank.

(f) “Operating Costs” means the reasonable and incremental expenses incurred by the Recipient on account of travel as well as any other reasonable expenditures agreed with the World Bank which are directly associated with the implementation of the Project.

(g) “Project Operations Manual” or “POM” means the operational manual for this Project, that is in form and substance satisfactory to the World Bank, as the same may be amended from time to time with the World Bank’s prior written approval.

(h) “PSC” means the Project Steering Committee with terms of reference and composition satisfactory to the Bank, and that is responsible for overall Project coordination, the review of implementation progress and providing advice on Project implementation.

(j) “Training” means expenditures (other than for consultants’ services), incurred during the implementation of the Project in connection with the training programs under this Project, based on periodic budgets acceptable to the World Bank, for: (i) reasonable travel, room, board and per diem expenditures incurred by trainers and trainees in connection with their training; (ii) course fees; (iii) training or workshop facility and equipment rentals; and (iv) training material preparation, acquisition, reproduction and distribution expenses including translation.

(k) “Treasury Administration” means the governmental entity of the same name, within MOF, or any successor or successors thereto, acceptable to the World Bank.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to increase transparency and reliability of financial reporting in the public sector for improved decision making, resource allocation and management in Serbia. The Project will support the Recipient in the modernization and strengthening of public sector accounting and financial reporting, and aligning its public accounting with the EU’s framework, which is one of the conditions for EU accession. The Project consists of the following parts:

Part 1. Enhancement of the institutional, legal, regulatory, and methodology framework for public sector accounting and financial reporting

1.1 Development of public accounting legal and regulatory framework

Provision of support towards the: (a) development and enactment of national accounting legislation to allow phased implementation of accrual based accounting standards; and (b) development of methodological and implementation guidance materials to support a gradual transition to accrual accounting.

1.2 Review and amendment of the national chart of accounts

Provision of support to review and, as needed, to amend the national chart of accounts to align with accrual accounting, budgeting and statistical needs.

1.3 Gradual implementation of internationally accepted accounting standards in line with IPSAS

Provision of support to gradually implement the IPSAS standards through, inter alia: (i) building capacity and strengthening of the implementation team in the Treasury Administration; (ii) assessment and selection of optimal IPSAS sequencing strategy in coordinated and consistent manner; (iii) implementation of defined set of accounting policies and procedures through: ensuring that adequate regulative framework for particular implementation phase is in place, monitoring results of the training activities, providing support to accountants during introduction of new accounting procedures and controlling results; and (iv) change management, communication and awareness raising activities which are necessary element of each complex reform to sustain political support
for the public sector accounting reform and to foster understanding and collaboration amongst various stakeholders of the reform including budget entities.

**Part 2. Capacity building, professional education and training in public sector accounting**

2.1 *Review of the current status and preparation of the training needs analysis*

Carrying out of a detailed training needs analysis based on the general findings of the REPPE assessment to: (i) identify specific training needs based on capacity gaps; (ii) define the target audience; (iii) determine recommendations on the curriculum design, approach in or modality of implementation, as well as a timetable for executing the said training.

2.2 *Technical capacity building at the Treasury Administration*

(a) Capacity building of selected core staff of the Treasury Administration who are involved in designing and implementing the overall public-sector accounting reform framework and of other Recipient policy makers through the provision of:

(i) technical assistance on selected expert areas;
(ii) support in the preparation or review of documents that regulate accounting methodology, monitoring, quality assurance;
(iii) advanced and professional level training in specific areas including consolidation of financial statements, financial instruments (e.g., securities, guarantees), and valuation of assets; and
(iv) on-the-job training in public sector accounting in line with the roadmap developed under Part 1.1 of the Project.

(b) Carrying out of knowledge sharing events.

(c) Provision of support to Treasury Administration staff in change management.

2.3 *Development of professional accounting skills and a sustainable public-sector accounting training mechanism*

Provision of support to improve professional accounting skills of finance staff handling budgets and establish a public accountants’ qualification program which include components for initial professional development and continuing professional development through: (i) training selected number of financial officers to obtain an internationally recognized professional qualification certificate; (ii) training of the trainers (ToT) approach in order to scale up training to targeted accounting staff of budget beneficiaries; and (iii) institutionalization of a local training and certification program at a local institution to ensure the sustainability of the development of public accounting skills in the long-run.
Part 3. Technical assistance supporting implementation of ICT systems needed for the proper implementation of accrual based accounting standards

Provision of technical assistance to support upgrading of the Recipient’s ICT accounting infrastructure needed for the implementation of accrual accounting and financial reporting, which shall include preparation of: (i) an ICT master plan, including stock taking of the current systems in place, detailing a gap analysis and ICT investment options needed to support IPSAS implementation; and (ii) technical specifications for the required ICT systems.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Ministry of Finance, and specifically, the Treasury Administration under the MOF, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. Institutional and Other Arrangements.

A. Institutional Arrangements

(1) The Recipient shall, through Treasury Administration, be responsible for overall Project implementation, maintaining staff in adequate numbers with terms of reference and qualifications acceptable to the World Bank;

(2) The Recipient shall, through the Ministry of Finance, maintain a Central Fiduciary Unit ("CFU") within the MOF;

(3) The Recipient shall, through the CFU, be responsible for all fiduciary aspects in project management, particularly project planning and budgeting, accounting and financial reporting, internal controls, flow of funds, procurement and contracting; and

(4) Establish, no later than thirty (30) days after the date on which this Agreement enters into effect pursuant to Section 6.01 of the Standard Conditions, and thereafter maintain and periodically convene throughout Project implementation a Project Steering Committee (PSC).

B. Project Operations Manual

(1) The Recipient shall, through Treasury Administration, adopt and carry out the Project in accordance with a POM which shall include a clarification of the roles of the Treasury Administration and the CFU, no later than sixty (60) days after effectiveness of the Project; and

(2) In case of any conflict between the terms of the POM and those of this Agreement, the terms of this Agreement shall prevail.
2.04 **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor’s support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient through the MOF shall, upon the World Bank’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall, through the CFU, ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar semester, covering the semester, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

(d) The Recipient shall, through the CFU, acquire and put in use accounting software acceptable to the World Bank for Project’s accounting and financial reporting requirements, no later than ninety (90) days after effectiveness of the Project.

2.07. **Procurement**

All consulting services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in the “World Bank Procurement Regulations for Borrowers under Investment Project Financing” dated July 1, 2016, revised November 2017 (“Procurement Regulations”), and the provisions of the Recipient’s procurement plan for the Project (“Procurement Plan”) dated February 27, 2018 provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the World Bank.
Article III  
Withdrawal of Grant Proceeds  

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Investment Project Financing” dated February 2017, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Consulting services, Operating Costs, and Training except under Part 1.3 of the Project</td>
<td>1,100,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Consulting services, Operating Costs, and Training under Parts 1.3 of the Project</td>
<td>250,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,350,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made:

(a) for payments made prior to the date of this Agreement; or

(b) under Category (2) for Part 1.3 until the Recipient, through the Treasury Administration, provides evidence that following conditions were fulfilled in the manner satisfactory to the Bank:

(i) The Roadmap detailing the sequence and timeline of implementation of accrual accounting standards based on IPSAS has been adopted,
(ii) ICT Master Plan has been prepared, comprising ICT solutions and necessary activities aligned with the Roadmap,
(iii) Adequate ICT solutions are in place to enable preparation of financial statements in line with sequenced application of IPSAS as specified in the Roadmap, and adequacy of which is verified by external experts engaged by the World Bank.
3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 31, 2020.

---

**Article IV**  
**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

4.02. **Recipient’s Address.** The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

- Ministry of Finance  
- 20, Kneza Milosa Street  
- 11000 Belgrade  
- Serbia  
- Telephone:  
- 381 11 364 26 56

4.03. **World Bank’s Address.** The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

- International Bank for Reconstruction and Development  
- 1818 H Street, N.W.  
- Washington, D.C. 20433  
- United States of America  
- Telex: 248423 (MCI) or 64145 (MCI)  
- Facsimile: 1-202-477-6391