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**LOAN NUMBER 8031-YF**

# **Loan Agreement**

**(South East Europe and Caucasus Catastrophe Risk Insurance  
Facility Project)**

**between**

**REPUBLIC OF SERBIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION  
AND DEVELOPMENT**

**Dated July 12 , 2011**

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## **LOAN AGREEMENT**

Agreement dated July 12, 2011, 2011, between REPUBLIC OF SERBIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”). The Borrower and the Bank hereby agree as follows:

WHEREAS (A) the Bank has received a letter of sector development policy dated January 11, 2011, from the Borrower describing a program of actions, objectives and policies (the Program) designed to create the enabling regulatory and legal framework for the operations of the South East Europe and Caucasus Catastrophe Risk Insurance Facility (as defined hereafter) and declaring the Borrower’s commitment to the execution of the Program;

(B) The Borrower, having been satisfied as to the feasibility and priority of the project (the Project) described in Schedule 1 to this Agreement, has requested the Bank to assist in the financing of the Project;

WHEREAS 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 five million dollars (\$5,000,000), 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 Part 1 of 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 III 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. The Borrower shall pay the Front-end Fee not later than 60 days after the Effective Date.

- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to the Reference Rate for the Loan Currency plus the Fixed 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 (e) of the General Conditions.
- 2.05. The Payment Dates are June 15 and December 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, or from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread.
- (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.

### **ARTICLE III - PROJECT**

- 3.01. The Borrower declares its commitment to the objectives of the Project and the Program. To this end, the Borrower shall carry out Part 1 of the Project through MoF and in cooperation with the National Bank of Serbia 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 Part 1 of the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

**ARTICLE IV - REMEDIES OF THE BANK**

4.01. The Additional Events of Suspension consist of the following:

- (a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.
- (b) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

4.02. The Additional Event of Acceleration consists of the following:

- (a) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs and is continuing for a period of 30 days after notice of the event has been given by the Bank to the Borrower.

**ARTICLE V - EFFECTIVENESS; TERMINATION**

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

**ARTICLE VI - REPRESENTATIVE; ADDRESSES**

6.01. The Borrower's Representative is its Minister of Finance.

6.02. The Borrower's Address is:

Ministry of Finance  
20 Kneza Milosa St.  
11000 Belgrade  
Republic of Serbia

Facsimile:

+381 11 3618 961

6.03. 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/ Loup Brefort

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to help increase access of homeowners, farmers, the enterprise sector and government agencies in the territory of the Borrower to financial protection from losses caused by climate change and geological hazards.

The Project consists of the following parts:

#### **Part 1. South East Europe and Caucasus Catastrophe Risk Insurance Facility**

##### Securing the Borrower's Membership in Europa Re

Provision of financing for the payment of the Borrower's membership participation in Europa Re to enable the latter to provide reinsurance support and required market infrastructure for innovative insurance products that will cover the costs of replacing physical assets (such as homes, business equipment and inventory, green houses) and livelihoods lost to natural disasters as well as government social obligations, if any, arising in the aftermath of such disasters.

#### **Part 2. Technical Assistance**

Provision of technical assistance in support of developing insurance market infrastructure, including appropriate regulatory, legislative and policy framework and design of the technical tools needed to provide catastrophe risk insurance and parametric indexed weather risk products, and training of insurance loss adjusters.

**SCHEDULE 2****Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

For the purposes of facilitating successful project implementation, the Borrower undertakes to carry out the following actions:

1. Not later than May 31, 2011, establish a program working group in the MoF with participation of the National Bank of Serbia and appoint its Head.
2. Not later than thirty (30) days after the effectiveness of this Agreement, appoint the Borrower's representative to Europa Re's Advisory Board and annual shareholders' meetings.
3. Carry out all necessary policy and regulatory actions, as set forth in the Program, that would result in the increased level of catastrophe insurance penetration among the Borrower's population and SMEs and that would create a conducive regulatory environment for Europa Re operations in the Borrower's insurance market.

**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**

1. The Borrower shall monitor and evaluate, or cause to be monitored and evaluated, 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 acceptable to the Bank. Each Project Report shall cover the period of one calendar year, and shall be furnished to the Bank not later than two (2) months 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 on the provisions of Part A of this Section, the Borrower shall prepare and furnish to the Bank, or cause to be prepared and furnished to the Bank, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports relating to the Project covering the quarter, in form and substance satisfactory to the Bank.

3. The Borrower shall, upon the Bank's request, have, or cause to have, the Financial Statements relating to the Project audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Such audit of the Financial Statements shall cover the period indicated in the Bank's request. The audited Financial Statements for such period shall be furnished to the Bank not later than six months after the date of the Bank's request.

### **Section III. 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.

<b>Category</b>	<b>Amount of the Loan Allocated (expressed in USD)</b>	<b>Percentage of Expenditures to be financed</b>
(1) Membership Contribution	5,000,000	100%
<b>TOTAL AMOUNT</b>	<u><b>5,000,000</b></u>	

#### **B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) from the Loan Account until the Bank has received payment in full of the Front-end Fee;
  - (b) for payments made prior to the date of this Agreement; nor
  - (c) for any payments in respect of the Borrower's Membership Contribution under Category (1) of the table set forth in paragraph A of this Section, unless the Borrower has signed a Shareholders' Agreement and received a Subscription Certificate.
2. The Closing Date is December 31, 2015.

### 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.

<b>Principal Payment Date</b>	<b>Installment Share (Expressed as a Percentage)</b>
On June 15, 2018	100%

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 with the modifications set forth in Section II of this Appendix.
2. “Category” means a category set forth in the table in Section III of Schedule 2 to this Agreement.
3. Europa Reinsurance Facility Limited or “Europa Re” means a catastrophe reinsurance facility established as a corporation under the laws of the Swiss Federation for the purpose of providing catastrophe risk reinsurance to the countries which are members of such facility.
4. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 31, 2010.
5. “Membership Contribution” means a fee payable by the Borrower to secure its membership in Europa Re.
6. “MoF” means the Borrower’s Ministry of Finance.
7. “Program” means the program designed to strengthen the national capacity of the Borrower to respond financially to disasters and set forth or referred to in the letter dated January 11, 2011 from the Borrower to the Bank.
8. “Project Agreement” means the agreement between the Bank and Europa Re.
9. “Project Implementing Entity” means Europa Re.
10. “Project Implementing Entity’s Legislation” means the Shareholder’s Agreement and the Articles of Incorporation of Europa Re.
11. “Shareholders’ Agreement” means the agreement executed among the shareholders of Europa Re that lays out their respective rights and responsibilities as shareholders of Europa Re and referred to in paragraph 1 (c) of Part B of Section III of Schedule 2 to this Agreement.
12. “Subscription Certificate” means a letter sent to the Borrower by Europa Re stating the number of shares to be owned by the Borrower upon disbursement of its Membership Contribution.

## **Section II. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

### **Footnotes:**

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”