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CONFORMED COPY

CREDIT NUMBER 3870-1 YF

Financing Agreement

(Additional Financing for the Serbia Energy Efficiency Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 27, 2007

CREDIT NUMBER 3870-1 YF

FINANCING AGREEMENT

Agreement dated July 27, 2007, entered into between REPUBLIC OF SERBIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement).

WHEREAS the Recipient has also requested the International Bank for Reconstruction and Development (the Bank) to provide additional assistance towards the financing of the Project and by an agreement of even date herewith between the Recipient and the Bank (the Loan Agreement), the Bank is making a loan to the Recipient in the amount of thirteen million three hundred thousand Euro (€13,300,000) (the Loan).

The Recipient and the Association 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 - FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to six million six hundred thousand Special Drawing Rights (SDR 6,600,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Euro.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV - EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, that the Loan Agreement has been executed and delivered and all conditions precedent to its effectiveness, other than those related to the effectiveness of this Agreement, have been fulfilled.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE V - REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister of Finance.
- 5.02. The Recipient's Address is:

Ministry of Finance
Government of the Republic of Serbia
Kneza Miloša 20
11000 Belgrade
Republic of Serbia

Facsimile:

381-11-3618-961

5.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (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 DEVELOPMENT ASSOCIATION

By /s/ Simon Gray

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to assist the Recipient in: (a) improving energy efficiency in heating buildings in order to make heating more affordable and improving functional and health environment of the users; and (b) reducing the local and global environmental impact of the use of dirty fuels for heating buildings.

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

Part 1. Energy System Modernization

Installation of modern energy efficient equipment at the CCNis, through provision of goods, works and services.

Part 2. Energy Efficiency Improvements in Social Service Buildings

Installation of energy efficiency equipment and/or retrofitting of Selected Schools, Hospitals and Social Care Buildings, through provision of goods, works and services.

Part 3. Technical Assistance

(a) Technical assistance to SEEA to develop and implement a monitoring, evaluation and communication plan, and preparation of energy audits, through the provision of services.

(b) Provision of support to the PIU in the management, implementation, supervision, evaluation and monitoring of the Project, through the provision of services, including the audit of records, accounts and financial statements, and through the financing of incremental operating costs.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional and Other Arrangements

1. The Recipient shall ensure that:

(a) the PSC is responsible for the coordination of activities among the ministries and agencies involved in Project implementation, and for overseeing the activities of the PIU and the PCU; the PIU remaining responsible for day-to-day Project implementation, including financial management, and monitoring and reporting;

(b) Part 1 of the Project shall be implemented by the MOH and the CCNis, with technical assistance provided by the MOME and consultants;

(c) Part 2 of the Project shall be implemented by: (i) the MOE with respect to improvements to Selected Schools; (b) the MOH with respect to improvements to Selected Hospitals; and (iii) the MOLSP with respect to improvements to Selected Social Care Buildings, with technical assistance provided by the SEEA, the MOME and consultants; and

(d) Part 3 of the Project shall be implemented by the MOME and the SEEA, with technical assistance provided by consultants.

2. The Recipient shall maintain, throughout Project Implementation, the PSC, the PIU and the PCU, all with authority, staff and resources necessary and appropriate for the Project.

3. The Recipient shall implement the Project in accordance with the terms and conditions set forth in the EMP and shall not amend, suspend, abrogate, terminate or waive or permit the EMP or any provision thereof, to be amended, suspended, abrogated, terminated or waived, except with the prior written approval of the Association.

B. Anti-Corruption

The Recipient 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 Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained, a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. The Recipient shall prepare and furnish to the Association 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 Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

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 Financing 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 Financing 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 Association 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 consultants' services) shall be procured under contracts awarded on the basis of International Competitive Bidding.

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 out in the Annex to this Schedule 2 of this Agreement).
(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 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 Method	
(a)	Least-cost Selection
(b)	Selection Based on Consultants' Qualifications
(c)	Procedures set forth in paragraphs 5.2 , 5.3 and 5.4 of the Consultant Guidelines for the Selection of Individual Consultants
(d)	Single Source Selection
(e)	Selection under a Fixed Budget

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association's Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association 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 Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed
(1) Goods, Works and Consultants' Services for Part 1 of the Project.	1,400,000	100%
(2) Goods, Works and Consultants' Services for Parts 2 and 3 of the Project.	4,730,000	100%
(3) Incremental Operating Costs	220,000	100%
(4) Unallocated	250,000	
TOTAL AMOUNT	<u>6,600,000</u>	

B. Withdrawal Conditions; Withdrawal Period

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

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

(b) in respect of expenditures under Category (1) unless and until: (i) an environmental assessment for Part 1 of the Project, satisfactory to the Association, has been conducted, by independent environmental assessment experts not affiliated with the Project and which shall have been retained by the Recipient under terms of reference acceptable to the Association; (ii) the Recipient has completed public consultations on the environmental assessment report; and (iii) an environmental management plan for Part 1 of the Project, satisfactory to the Association, has been prepared by environmental experts acceptable to the Association, to eliminate, offset, or reduce to acceptable levels any adverse environmental and social aspects, including the actions needed to implement the mitigation, monitoring and institutional measures to be taken during the implementation and operation of said Part 1.

2. The Closing Date is April 30, 2010.

**ANNEX
to SCHEDULE 2**

National Competitive Bidding: Additional Provisions

For 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; and
- (iii) foreign bidders not from the territory of the Recipient 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 Recipient 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 Association.

(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 thirty (30) days. No further extensions shall be requested without the prior approval of the Association; and
- (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 eighteen (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 Association's prior concurrence.
- (ii) When the number of bids received is less than three (3), re-bidding shall not be carried out without the Association's prior concurrence.

(h) Securities

Bid security shall not exceed three 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 Association.

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

SCHEDULE 3

Repayment Schedule

<u>Date Payment Due</u>	Principal Amount of the Credit repayable <u>(expressed as a percentage)</u> ¹
On each February 15 and August 15 commencing August 15, 2017 to and including February 15, 2027	5%

¹ The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

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. “CCNis” means the Clinical Center of Serbia at Nis, under the MOH.
4. “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.
5. “EMP” means the plan describing the environmental mitigation, monitoring and institutional measures to be undertaken during the implementation of the Project, and satisfactory to the Association.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Incremental Operating costs” means expenditures incurred by the PIU on account of office space and facilities, operating and maintenance of equipment, vehicle, office supplies, utilities, communications and translation services, and office equipment.
8. “Loan Agreement” means the loan agreement for the Project between the Recipient and the Bank, dated the same date as this Agreement, as such loan agreement may be amended from time to time. “Loan Agreement” includes all appendices, schedules and agreements supplemental to the Loan Agreement.
9. “MOE” means the Recipient’s Ministry of Education, or any successor thereto.
10. “MOFE” means the Recipient’s Ministry of Finance and Economy, or any successor thereto.
11. “MOH” means the Recipient’s Ministry of Health, or any successor thereto.
12. “MOLSP” means the Recipient’s Ministry of Labor and Social Policy, or any successor thereto.

13. “MOME” means the Recipient’s Ministry of Mining and Energy, or any successor thereto.
14. “Original Financing Agreement” means the Development Credit Agreement for the Serbia Energy Efficiency Project between Serbia and Montenegro and the Association, dated March 31, 2004 (Credit Number 3870-YF).
15. “Original Project” means the Project described in the Original Financing Agreement.
16. “PIU” means the unit established within the MOME, and referred to in Section I of Schedule 2 to this Agreement, or any successor thereto.
17. “PCU” means the Project Coordination Unit for the MOE, the MOH, the MOLSP and the CCNis).
18. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
19. “PSC” means the Project Steering Committee, a committee chaired by a representative of the MOME, and whose members include representatives of the MOF, the MOE, the MOH, the MOLSP, Ministry of Infrastructure, Ministry of Science, the SEEA and the CCNis.
20. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 7, 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.
21. “SEEA” means the Serbian Energy Efficiency Agency, or any successor thereto.
22. “Selected Schools, Hospitals and Social Care Buildings” means the schools, hospitals and social care buildings selected by the Recipient in accordance with the selection criteria satisfactory to the Association.