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CONFORMED COPY

CREDIT NUMBER 3753 YF

Development Credit Agreement

(Employment Promotion Project)

between

SERBIA AND MONTENEGRO

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 19, 2003

CREDIT NUMBER 3753 YF

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 19, 2003, between SERBIA AND MONTENEGRO (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Borrower will make available to the Government of the Republic of Serbia, through the Sub-Credit Agreement (as defined hereinafter), the proceeds of the Credit, as provided in this Agreement;

(C) the Government of the United Kingdom of Great Britain and Northern Ireland, through its Department of International Development (DFID), has agreed to provide a grant in an amount equivalent to \$1,750,000 (the DFID Grant) to assist in financing of the Project, and, pursuant to a memorandum of understanding (the DFID Trust Fund Agreement) between DFID and the Association, signed by DFID on April 29, 2003 and countersigned by the Association on May 5, 2003, the Association has agreed to act as Administrator of the DFID Grant, to the extent and subject to the DFID Grant funds being made available to the Association;

(D) the Association, acting as the Administrator of the DFID Grant pursuant to the DFID Trust Fund Agreement, and the Borrower have entered into an agreement (the DFID Grant Agreement) of even date herewith, which sets forth the terms and conditions of the DFID Grant; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement,

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Euro” means the lawful currency of the member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty of European Union;

(b) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 (a) of this Agreement;

(c) “LMB” means the Labor Market Bureau, a bureau established under the MOLE pursuant to the Law on Employment and Implementation of Employment Rights, published on April 18, 1992 in the Official Gazette of the Republic of Serbia No. 22, as amended, and registered with the Commercial Court in Belgrade on June 3, 1992 under the number F1.11286/92, or any successor or successors thereto;

(d) “MOLE” means the Ministry of Labor and Employment of the Republic of Serbia, or any successor or successors thereto;

(e) “Operational Manual” means the manual describing the operational rules and procedures of Project implementation, satisfactory to the Association, adopted by the MOLE on April 11, 2003, as the same may be amended from time to time subject to the Association’s approval;

(f) “PIU” means the Project Implementation Unit established under the authority of the MOLE pursuant to the MOLE decision No. 420-01-05 dated March 4, 2003, and referred to in Section 3.03 (a) of this Agreement;

(g) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement; and

(h) “Sub-credit Agreement” means the agreement on the transfer of the proceeds of the Credit and the obligations for the implementation of the Project entered between the Borrower and the Republic of Serbia, referred to in Section 3.02 (a) of this Agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Sub-credit Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to two million Special Drawing Rights (SDR 2,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Euro a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2006, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07. The Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15, commencing October 15, 2013, and ending April 15, 2023. Each installment shall be five percent (5%) of such principal amount.

Section 2.08. The Euro is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. The Borrower declares its commitment to the objectives of the Project, and, to this end, without any limitation or restriction upon any of its other obligations under this Agreement, shall ensure that the Republic of Serbia carries out the Project with due diligence and efficiency, and in conformity with appropriate administrative, financial, environmental and technical practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. (a) Without limitation upon the provisions of Section 3.01, and except as the Association and the Borrower shall otherwise agree, the Borrower, in order to ensure the implementation the Project, shall make the proceeds of the Credit available to the Republic of Serbia, under a sub-credit agreement (Sub-credit Agreement), to be entered between the Borrower and the Republic of Serbia, which shall have been approved by the Association.

(b) The Borrower shall exercise its rights under the Sub-credit Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate, repeal or waive the Sub-credit Agreement, or any provision thereof.

Section 3.03. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Association and the Borrower shall otherwise agree, the Borrower shall ensure that the Republic of Serbia ensures that:

(a) the MOLE maintains, during the term of the Project, a project implementation unit, under terms of references and with staff and other resources required for Project implementation and satisfactory to the Association;

(b) the MOLE and LMB implement the Project in accordance with the Operational Manual, which shall not be amended, suspended, abrogated, repealed or waived without prior approval of the Association; and

(c) with respect to Part A.2 of the Project, the MOLE, based on the recommendation of a consulting firm to be engaged by the MOLE, shall adopt the procedures, terms and conditions which shall be satisfactory to the Association and shall be included in the Operational Manual, for the carrying out of labor redeployment services.

Section 3.04. The Borrower shall ensure that the Republic of Serbia:

(a) maintains policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Borrower and Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepares, under terms of reference satisfactory to the Association, and furnish to the Association, by September 30, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (a) of this Section 3.04, 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) reviews with the Association, by December 31, 2004, or such later date as the Association shall request, the report referred to in paragraph 1 (b) of this Section 3.04, 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 Association's views on the matter.

Section 3.05. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.06. Except as the Association shall otherwise agree, procurement of the goods, consultants' services and labor redeployment services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall ensure that the Republic of Serbia maintains a financial management system, including records and accounts, and prepares financial statements in a format acceptable to the Association, adequate to reflect the operations, resources, and expenditures related to the Project.

- (b) The Borrower shall ensure that the Republic of Serbia:
 - (i) has the records, accounts and financial statements referred to in paragraph (a) of this Section, and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
 - (ii) furnishes to the Association as soon as available, but in any case not later than six (6) months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
 - (iii) furnishes to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall ensure that the Republic of Serbia:

- (i) maintains or causes to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retains until at least one (1) year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enables the Association's representatives to examine such records; and
- (iv) ensures that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section, and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the reporting obligations set forth in Section 3.04 of this Agreement, the Borrower shall ensure that the Republic of Serbia causes financial monitoring reports, in form and substance satisfactory to the Association, to be prepared and furnished to the Association which:

- (i) set forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describe physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) set forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than forty-five (45) days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than forty five (45) days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) the Republic of Serbia shall have failed to perform any of its obligations under the Sub-credit Agreement; and

(b) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the DFID Grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the DFID Grant Agreement;

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely that the event specified in Section 5.01 (a) of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Sub-credit Agreement has been executed and all conditions to the effectiveness of such agreement have been fulfilled.

Section 6.02. The following is specified as an additional matter, within the meaning of paragraph (b) of Section 12.02 of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the Sub-credit Agreement has been duly authorized or ratified by the Borrower and the Republic of Serbia, and is legally binding upon the parties thereto.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Foreign Economic Relations is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of External Economic
Relations
Bulevar Mihajla Pupina 2
11000 Belgrade
Serbia and Montenegro

Facsimile:

381 11 3112 979

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the city of Belgrade, Serbia and Montenegro, as of the day and year first above written.

SERBIA AND MONTENEGRO

/s/ Branko Lukovac
Authorized Representative

ASSOCIATION INTERNATIONAL DEVELOPMENT

/s/ Orsalia Kalantzopoulos
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR)</u>	<u>% of Expenditures to be Financed</u>
(1) Labor redeployment services	360,000	61%
(2) Training	430,000	61%
(3) Services	700,000	61%
(4) Goods	220,000	61%
(5) Incremental operating costs	140,000	61%
(6) Unallocated	<u>150,000</u>	
TOTAL	<u>2,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “labor redeployment services” means reasonable and necessary labor redeployment services provided to qualified persons under Part A.2 of the Project, to be provided in accordance with Section 3.03 (c) of this Agreement;

(b) the term “training” means the fees of educational or other institutions and organizations that provide training services, cost of study tours, cost of workshops, related travel expenditures, boarding, lodging and per diem allowances of the trainees;

(c) the term “services” means reasonable and necessary expenditures with respect to services required for Project implementation, including for the development of staff training manuals and curricula; the development of enterprise social plans and the

design of relevant programs, implementation procedures, operating guidelines and manuals; the development of a database on redundant workers; the launching and pilot testing of relevant programs; the development of local economic potential studies, promotional and information materials; information dissemination; monitoring, assessment and evaluation of labor redeployment programs and active labor market programs; surveys of program participants; translation; and auditing; and

(d) the term “incremental operating costs” means reasonable and necessary incremental expenditures, as approved by the Association on the basis of budgets acceptable to the Association, incurred by the MOLE and LMB with respect to Project implementation, management and monitoring, including office space, office supplies, utilities, publication of procurement notices, vehicle operation, travel and supervision costs, but excluding salaries of officials and employees of the Borrower, the Republic of Serbia and LMB.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

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

(b) Category (1), unless the requirements set forth in Section 3.03 (c) of this Agreement have been fulfilled.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$100,000 equivalent each, with the exception of the first two contracts procured under international shopping procedures, and the first two contracts procured under national shopping procedures; (b) training and services for individuals costing less than \$25,000 equivalent each, and firms costing less than \$50,000 equivalent each; (c) labor redeployment services under Part A.2 of the Project under contracts costing less than \$50,000 equivalent each; and (d) incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve the efficiency of labor programs by piloting and testing new approaches and innovative labor redeployment programs and employment services for the unemployed in selected areas with a view to employment promotion and increased cost effectiveness of such programs.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Labor Redeployment

1. Reintegrating displaced workers and other job seekers into the labor market and mitigating the social costs of enterprise restructuring through the development and testing of new policies, institutional arrangements and labor redeployment programs, including the design and implementation of enterprise social plans, through the provision of training, services and goods.
2. Provision of assistance to persons displaced as a result of restructuring or privatization of enterprises through labor redeployment services, as part of the carrying out of enterprise social plans, including job counseling, financial counseling, job search referral, and skill and entrepreneurial training.

Part B: Pilot Reforms in Public Employment Services

Design, piloting and evaluation of new and cost effective public employment services with a view to assisting the unemployed to rapidly re-enter the labor market, through the provision of improved employment services, such as job search assistance programs and small business advisory services, as well as the institutional strengthening of the MOLE and LMB, through the provision of training, services and goods.

Part C: Labor Market Information and Evaluation

Development of a comprehensive system of labor market information to assess and evaluate the effects of labor market programs, through the provision of training, services and goods.

Part D: Project Management and Implementation

Assistance to the MOLE, including the PIU, in the management of the Project through the provision of services, including the audit of accounts and financial statements referred to in Section 4.01 (b) of this Agreement, and assistance to the MOLE, including the PIU, and LMB in the implementation of the Project through the provision of training, services and goods.

* * *

The Project is expected to be completed by December 31, 2005.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. International Shopping

Goods estimated to cost less than \$100,000 per contract, up to an aggregate amount not to exceed \$510,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 per contract, up to an aggregate amount not to exceed \$60,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and supply and installation of IT shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract awarded in accordance with the provisions of Part B of Section I of this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first two contracts to be procured in accordance with the procedures referred to in each Parts C.1 and C.2 of Section I of this Schedule, the following procedures shall apply:

- (i) prior to the execution of any contract, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received and a copy of the specifications and the draft contract; and
- (ii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of the Introduction, Section IV of, and Appendix 2 to the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality-and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for auditing services under Part D of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Service Delivery Contractors

Labor redeployment services under Part A.2 of the Project, estimated to cost less than \$200,000 equivalent per contract, or estimated to cost less than \$100,000 equivalent per contract in cases where the short list is comprised entirely of national consultants, may be procured in accordance with the procedures acceptable to the Association and based on the criteria set forth in the Operational Manual.

4. Individual Consultants

Services of individual consultants for: (a) tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (b) monitoring and evaluation tasks under Part A of the Project may be selected on a sole-source basis in accordance with the provisions of paragraph 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association, for its review and approval, prior to the issuance to consultants of any requests for proposals. Such plan shall be updated every 6 months during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time), as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$50,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$25,000 or more, the report on the comparison of the qualifications and experience of candidates, and the terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, consultants’ services, labor redeployment services and incremental operating costs required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to □140,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to □70,000 until the aggregate amount of withdrawals from the Credit Account of amounts allocated to the Special Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal or exceed the equivalent of SDR 180,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association, on behalf of the Borrower, a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the government of the Republic of Serbia shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall ensure that the government of the Republic of Serbia furnishes to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the government of the Republic of Serbia shall have requested on behalf of the Borrower, and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the government of the Republic of Serbia on behalf of the Borrower out of the Special Account, the Borrower shall ensure that the government of the Republic of Serbia, at such time as the Association shall reasonably request, furnishes to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower or the government of the Republic of Serbia on behalf of the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the government of the Republic of Serbia shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of

expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the said eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.