

**OFFICIAL
DOCUMENTS**

LOAN NUMBER 8491-YF

Loan Agreement

**(First Programmatic State Owned Enterprises Reform
Development Policy Loan)**

between

REPUBLIC OF SERBIA

and

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

Dated *April 17, 2015*

LOAN AGREEMENT

Agreement dated April 17, 2015, entered into between the REPUBLIC OF SERBIA ("Borrower") and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ("Bank") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Bank has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Borrower has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement; and (b) the Borrower's maintenance of an adequate macroeconomic policy framework. The Borrower and the Bank therefore 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 eighty-eight million three hundred thousand Euro (EUR 88,300,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.08 of this Agreement ("Loan").
- 2.02. The Borrower may withdraw the proceeds of the Loan in support of the Program in accordance with Section II of Schedule 1 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.
- 2.04. The Commitment Charge payable by the Borrower shall be equal to one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.
- 2.05. 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 Variable 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.

- 2.06. The Payment Dates are June 15 and December 15 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 2 to this Agreement.
- 2.08. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:
 - (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, withdrawn or unwithdrawn, to an Approved Currency;
 - (ii) a change of the interest rate basis applicable to: (A) 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 (B) all or any portion of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Reference Rate and the Variable Spread to a Variable Rate based on a Fixed Reference Rate and the Variable Spread, or vice versa; or (C) all of the principal amount of the Loan withdrawn and outstanding from a Variable Rate based on a Variable Spread to a Variable Rate based on a Fixed Spread; and
 - (iii) the setting of limits on the Variable Rate or the Reference Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on the Variable Rate or the Reference Rate.
- (b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a "Conversion", as defined in the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III — PROGRAM

- 3.01. The Borrower declares its commitment to the Program and its implementation. To this end, and further to Section 5.08 of the General Conditions:
- (a) the Borrower and the Bank shall from time to time, at the request of either party, exchange views on the Borrower's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Borrower shall furnish to the Bank for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Bank shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Borrower shall promptly inform the Bank of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE BANK

- 4.01. The Additional Event of Suspension consists of the following: namely, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following: namely, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Bank to the Borrower.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following: namely, that the Bank is satisfied with the progress achieved by the Borrower in carrying out the Program and with the adequacy of the Borrower's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date one hundred eighty days (180) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Borrower's Representative is its Minister of Finance. For the purposes of Section 10.02 of the General Conditions, the Borrower's Representative who, *inter alia*, may agree to modifications of the provisions of this Agreement on behalf of the Borrower, through exchange of letters (unless otherwise determined by the Borrower and the Bank), 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 The District of Columbia, United States of America as of the day and year first above written.

REPUBLIC OF SERBIA

By



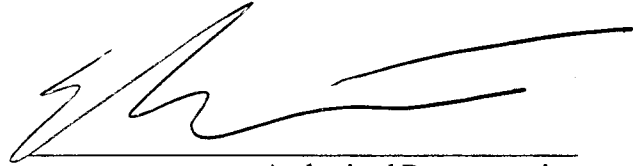
Authorized Representative

Name: Dusan Vujovic

Title: Minister of Finance

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

Name: Ellen Goldstein

Title: Country Director

SCHEDULE 1

Program Actions; Availability of Loan Proceeds

Section I. Actions under the Program

The actions taken by the Borrower under the Program include the following:

1. The Borrower has enacted the Borrower's Law on Privatization (published in the Official Gazette 83/14 on August 15, 2014), and amendments to the Bankruptcy Law (published in the Official Gazette 83/14 on August 15, 2014), and Privatization Agency Law (published in the Official Gazette 115/14 on October 24, 2014) to facilitate and accelerate the disposition of selected companies from the Privatization Agency's portfolio.
2. The Borrower, through the Ministry of Economy: (i) has adopted decisions by instructing the Privatization Agency on the method, models and measures for 140 PA Companies to be resolved using the capital sale or asset sale model and for 19 micro PA Companies; and (ii) has adopted the Action Plan (pursuant to Government Decision 05, No. 023-772/2015-1, adopted on January 31, 2015) for 188 PA Companies to be resolved through bankruptcy.
3. The Borrower has launched implementation of the Law on Privatization (published in the Official Gazette 83/14 on August 15, 2014) by: (i) initiating bankruptcy procedures in courts for 76 PA Companies with no employees through letters from the Privatization Agency to the relevant Commercial Court; (ii) announcing public bids under either the equity sale model or the asset sale model for at least two PA Companies that were in restructuring as of August 13, 2014; (iii) delivering to the PA programs for asset sales by at least eight (8) PA Companies that were in restructuring, through a letter from each PA Company to the Privatization Agency; and (iv) adopting decisions, pursuant to Government Conclusions dated December 4, 2014 and January 23, 2015, respectively, on a strategic partnership for at least two PA Companies.
4. For the twenty-four (24) PA Companies subject to the Law on Public Enterprises, adopted on December 15, 2012 and published in the Official Gazette 119/12, and of which the Borrower is the founder, the Borrower: (i) has adopted new statutes and founding acts and appointed supervisory boards in at least fifteen (15) of them; and (ii) has established audit committees in line with the new legal framework in at least ten (10) of them.
5. The Public Oversight Board for Auditing has been established pursuant to the Law on Auditing, which was adopted on July 16, 2013 and published in the Official Gazette 62/13, and is fully operational, conducting public oversight of the quality of performance and operations of the audit profession in Serbia in line with said Law, by, *inter alia*, issuing opinions, making recommendations and proposing corrective measures.

6. The Borrower has implemented quarterly business monitoring as provided for under Article 52 of the Law on Public Enterprises, adopted on December 15, 2012 and published in the Official Gazette 119/12, through a Decree on Templates for Quarterly Reporting on fulfillment of annual plans of Public Enterprises and their subsidiaries (published in the Official Gazette 36/13 and amended in the Official Gazette 27/14).
7. The Borrower has: (i) adopted a decision on January 27, 2015, on the Program for Resolving Redundant Workers in the Process of Privatization for 2015, published in the Official Gazette 9/15 on January 28, 2015, establishing and detailing the options and amounts for the social programs to be paid out in 2015 for workers declared redundant from PA Companies; and (ii) provided funding in the 2015 Budget, (adopted on December 25, 2014 and published in the Official Gazette 83/14) for RSD 16 billion in financial compensation needed to mitigate the social impact of the disposition of PA Companies in restructuring.
8. The Borrower has included in the 2015 performance agreement of the National Employment Service (NES) with the Ministry of Labor, Employment, Veterans and Social Affairs, signed on February 11, 2015, a requirement for NES to: (i) visit every company that plans to lay off more than ten (10) workers and inform workers about available NES services, programs, and benefits, register them with NES, and develop an individual action plan for each registered redundant worker; (ii) contact at least twenty (20) employers in the same and neighboring municipalities where the company resides to offer them NES services and inquire about job vacancies; and (iii) consult with the local employment council about support for redundant workers.

Section II. Availability of Loan Proceeds

- A. **General.** The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of this Section and such additional instructions as the Bank may specify by notice to the Borrower.
- B. **Allocation of Loan Amounts.** The Loan (except for amount required to pay the Front-end Fee) is allocated in a single withdrawal tranche from which the Borrower may make withdrawals of the Loan proceeds. The allocation of the amounts of the Loan to this end is set out in the table below:

<u>Allocations</u>	<u>Amount of the Loan Allocated (expressed in Euro)</u>
(1) Single Withdrawal Tranche	88,079,250
(2) Front-end Fee	220,750
TOTAL AMOUNT	88,300,000

C. Withdrawal Tranche Release Conditions.

No withdrawal shall be made of the Single Withdrawal Tranche unless the Bank is satisfied: (a) with the Program being carried out by the Borrower; and (b) with the adequacy of the Borrower's macroeconomic policy framework.

D. Deposits of Loan Amounts. Except as the Bank may otherwise agree:

1. all withdrawals from the Loan Account shall be deposited by the Bank into an account designated by the Borrower and acceptable to the Bank; and
2. the Borrower shall ensure that upon each deposit of an amount of the Loan into this account, an equivalent amount is accounted for in the Borrower's budget management system, in a manner acceptable to the Bank.

E. Excluded Expenditures. The Borrower undertakes that the proceeds of the Loan shall not be used to finance Excluded Expenditures. If the Bank determines at any time that an amount of the Loan was used to make a payment for an Excluded Expenditure, the Borrower shall, promptly upon notice from the Bank, refund an amount equal to the amount of such payment to the Bank. Amounts refunded to the Bank upon such request shall be cancelled.

F. Closing Date. The Closing Date is March 31, 2016.

SCHEDULE 2

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, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 2 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 15 and December 15 Beginning June 15, 2023 through June 15, 2034	4.17%
On December 15, 2034	4.09%

2. Notwithstanding the provisions of paragraph 1 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.
3. 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. "Excluded Expenditure" means any expenditure:

- (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association has financed or agreed to finance, or which the Bank or the Association has financed or agreed to finance under another loan, credit, or grant;
- (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;

- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Bank determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Borrower or other recipient of the Loan proceeds, without the Borrower (or other such recipient) having taken timely and appropriate action satisfactory to the Bank to address such practices when they occur.
2. "General Conditions" means the "International Bank for Reconstruction and Development General Conditions for Loans", dated March 12, 2012, with the modifications set forth in Section II of this Appendix.
 3. "National Employment Service" or "NES" means the National Employment Service of the Borrower.
 4. "PA Companies" means companies in the portfolio of the Privatization Agency.
 5. "Privatization Agency" or "PA" means the Privatization Agency of the Borrower.
 6. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated February 23, 2015, from the Borrower to the Bank, declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Bank in support of the Program during its execution.
 7. "Public Oversight Board for Auditing" means the Borrower's Public Oversight Board for Auditing, or any legal successor thereto.
 8. "RSD" means the lawful Serbian currency, the Serbian Dinar.
 9. "Single Withdrawal Tranche" means the amount of the Loan allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the modifications set forth in the paragraphs below.
2. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
3. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
4. Section 3.01. (*Front-end Fee*) is modified to read as follows:

“Section 3.01. *Front-end Fee; Commitment Charge*

(a) The Borrower shall pay the Bank a front-end fee on the Loan amount at the rate specified in the Loan Agreement (the “Front-end Fee”).

(b) The Borrower shall pay the Bank a commitment charge on the Unwithdrawn Loan Balance at the rate specified in the Loan Agreement (the “Commitment Charge”). The Commitment Charge shall accrue from a date sixty (60) days after the date of the Loan Agreement to the respective dates on which amounts are withdrawn by the Borrower from the Loan Account or cancelled. The Commitment Charge shall be payable semi-annually in arrears on each Payment Date.”

5. Sections 5.01 (*Project Execution Generally*), and 5.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the subsequent Sections in Article V are renumbered accordingly.
6. Paragraph (a) of Section 5.05 (renumbered as such pursuant to paragraph 5 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
7. Paragraph (c) of Section 5.06 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

“Section 5.06. *Plans; Documents; Records*

... (c) The Borrower shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Loan until two years after the Closing Date. The Borrower shall enable the Bank’s representatives to examine such records.”

8. Paragraph (c) of Section 5.07 (renumbered as such pursuant to paragraph 5 above) is modified to read as follows:

“Section 5.07. Program Monitoring and Evaluation

... (c) The Borrower shall prepare, or cause to be prepared, and furnish to the Bank not later than six months after the Closing Date, a report of such scope and in such detail as the Bank shall reasonably request, on the execution of the Program, the performance by the Loan Parties and the Bank of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Loan.”

9. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.
10. The Appendix is modified by inserting a new paragraph 19 with the following definition of “Commitment Charge”, and renumbering the remaining paragraphs accordingly:
- “19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”
11. Renumbered paragraph 37 (originally paragraph 36) of the Appendix (“Eligible Expenditure”) is modified to read as follows:
- “37. “Eligible Expenditure” means any use to which the Loan is put in support of the Program, other than to finance expenditures excluded pursuant to the Loan Agreement.”
12. Renumbered paragraph 44 (originally paragraph 43) of the Appendix (“Financial Statements”) is deleted in its entirety.
13. In paragraph 48 of the Appendix, the definition of “Front-end Fee” is modified by replacing the reference to Section 3.01 with Section 3.01 (a).
14. In paragraph 67 of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“67. “Loan Payment” means any amount payable by the Loan Parties to the Bank pursuant to the Legal Agreements or these General Conditions, including (but not limited to) any amount of the Withdrawn Loan Balance, interest, the Front-end Fee, the Commitment Charge, interest at the Default Interest Rate (if any), any prepayment premium, any transaction fee for a Conversion or early termination of a Conversion, the Variable Spread Fixing Charge (if any), any premium payable upon the establishment of an Interest Rate Cap or Interest Rate Collar, and any Unwinding Amount payable by the Borrower.”

15. In paragraph 72 of the Appendix, the definition of "Payment Date" is modified by deleting the word "is" and inserting the words "and Commitment Charge are" after the word "interest".
16. The defined term "Project" in paragraph 75 of the Appendix is modified to read "Program" and its definition is modified to read as follows (and all references to "Project" throughout these General Conditions are deemed to be references to "Program"):

"75. "Program" means the program referred to in the Loan Agreement in support of which the Loan is made."