

Public Disclosure Authorized

OFFICIAL DOCUMENTS

LOAN NUMBER 8693-YF

Loan Agreement

(Inclusive Early Childhood Education and Care Project)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *May 12*, 2017

LOAN NUMBER 8693-YF

LOAN AGREEMENT

Agreement dated May 12, 2017, between
REPUBLIC OF SERBIA ("Borrower") and INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT ("Bank"). 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 forty-seven million Euros (Euro 47,000,000), 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"), to assist in financing 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 IV 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.
- 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, however, that the interest payable shall in no event be less than zero percent (0%) per annum; and provided furthermore 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty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 1 and December 1 in each year.
- 2.07. The principal amount of the Loan shall be repaid in accordance with the amortization schedule set forth in Schedule 3 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 — PROJECT

- 3.01. The Borrower declares its commitment to the objective of the Project. To this end, the Borrower shall carry out the Project through its Ministry of Education, Science and Technological Development (MoESTD), with the support of its Ministry of Finance (MoF), all 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 the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

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ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Conditions of Effectiveness consist of the following:
- (a) The Borrower, through its Ministry of Finance, has formally established the Central Fiduciary Unit, with functions and staffing satisfactory to the Bank;
 - (b) The Borrower, through its MoESTD, has formally established the Project Management Unit, with functions and staffing satisfactory to the Bank; and
 - (c) The Borrower, through its MoESTD, has adopted the Project Operations Manual to the satisfaction of the Bank.
- 4.02. The Effectiveness Deadline is the date one hundred and eighty (180) days after the date of this Agreement.

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. 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.
- 5.02. The Borrower's Address is:
- Ministry of Finance
20 Kneza Milosa Street
11000 Belgrade
Republic of Serbia
- Facsimile:
(381-11) 3618-961
- 5.03. The Bank's Address is:

International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex: 248423(MCI) or 64145(MCI)

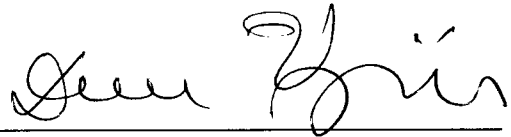
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AGREED at Belgrade, Republic of Serbia, as of the day and year first above written.

REPUBLIC OF SERBIA

By

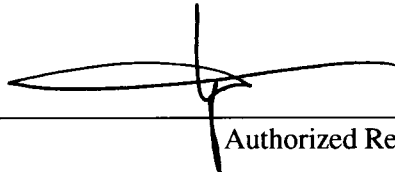
PD 
Authorized Representative

Name: DEJAN VUJOVIC, PD

Title: MINISTER OF FINANCE

INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT

By


Authorized Representative

Name: Antonius Verheijen

Title: Country Manager

SCHEDULE 1

Project Description

The objective of the Project is to improve access to quality early childhood education and care (ECEC) services, in particular for children from socially disadvantaged backgrounds.

The Project consists of the following parts:

Part 1. Expanding the supply of Preschool Spaces

- A. Provision of approximately 17,000 Preschool Spaces in new, renovated, repurposed or upgraded facilities (involving construction of new preschools, extension of existing preschools, and repurposing or upgrading of other public buildings), including provision of furniture, teaching-learning materials, equipment, and playgrounds for all new and rehabilitated preschool institutions, and capacity building for local architects and engineers carrying out the said works.
- B. Renovation or construction of up to five innovative centers to serve as model preschools for training and knowledge sharing purposes.

Part 2. Strengthening the quality of preschool services

- A. *Supporting implementation of preschool curriculum.*
 - (i) Development of a training program and training materials for teachers and other staff and the rollout of a new preschool curriculum.
 - (ii) Development of teaching-learning materials according to the new preschool curriculum.
 - (iii) Development and strengthening of the Preschool Assistance Network (PAN), including the PAN's provision of training activities to preschool teachers, in support of the roll-out of the new preschool curriculum.
- B. *Improving pre-service and in-service training.*
 - (i) Provision of technical assistance to evaluate, reform, and harmonize pre- and in-service preschool teacher training.
 - (ii) Provision of technical assistance to assess and advise on preschool teacher career advancement.
 - (iii) Identification and provision of trainings to increase the leadership and competences of preschool managerial staff.

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C. *Improving the monitoring and evaluation of preschools to improve decision making.*

- (i) Enhancement of the education monitoring and information system for preschools.
- (ii) Provision of technical assistance: (a) to assess existing quality evaluation instruments and methodologies for self- and external evaluations, and improve the existing instruments based on revised quality standards for preschools; and (b) to develop proposals on changes to existing regulations relating to the provision of ECEC.
- (iii) Provision of training to improve the capacity of external evaluators, preschool staff and administrators, and other decision-makers in evaluating the quality of preschool services.

Part 3. Supporting young children and families

A. *Communication campaign.*

Development and carrying out of a nationwide campaign to raise awareness of the importance of the early years and to empower parents to play a key role in promoting their young children's development, through the use of, *inter alia*, mass media, social media, and printed publications.

B. *Outreach to vulnerable families.*

Provision of grants to at least 30 Local Self-governments to improve coordination and cooperation among relevant actors in providing holistic and high quality ECEC services (including in the areas of health, nutrition, early screening of disabilities, and early stimulation and learning) to parents and to children aged 0-6.5 years, with a focus on the most vulnerable.

C. *Subsidies to ensure free preschool participation among the most vulnerable children ages 3 to 5.5 years.*

Provision of financing to support subsidies for annual preschool fees for families receiving Financial Social Assistance.

Part 4. Project Management, Technical Assistance, Monitoring and Evaluation

A. *Project management and technical assistance*

Provision of: (i) Project management support to the Project Management Unit, including technical assistance and training to all Project staff, Project audits, office

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equipment and incremental Operating Costs; (ii) technical assistance to the MoESTD on quality reforms in the education sector; and (iii) technical assistance to the Ministry of Labor, Employment, Veteran and Social Affairs to expand its existing management information system, including additional modules to promote the efficient administration of the subsidies supported by Part 3.C of the Project.

B. *Project monitoring and evaluation*

Provision of: (i) technical assistance for the design and implementation of (a) tools and surveys to monitor the results framework for the Project, and (b) technical audits of selected aspects of the Project, including the first phase of the grant program under Part 3.B of the Project; (ii) training for MoESTD staff engaged in the implementation of the Project; and (iii) technical assistance for the design, implementation, and analysis of evaluation surveys.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. Without limitation to the provisions of Article V of the General Conditions and except as the Bank shall otherwise agree, the Borrower shall, as relevant, establish and maintain throughout Project implementation, with composition, resources, terms of reference and functions acceptable to the Bank:
 - (a) a Project Management Unit (PMU), within MoESTD, to be responsible for (i) the overall coordination of all Project implementation activities, including specifically with the Central Fiduciary Unit, Working Group, other members of MoESTD, and other relevant agencies and beneficiaries, as specified in the Project Operations Manual (POM) and the Grant Operations Manual (GOM), (ii) ensuring that the requirements, criteria, policies, procedures and organizational arrangements set forth in the POM and the GOM, as relevant, are applied in carrying out the Project, (iii) preparation of all Project implementation documents, including Project supervision reports, and (iv) monitoring and evaluation of the Project;
 - (b) a Central Fiduciary Unit (CFU), within MoF, to be responsible for the procurement and financial management of the Project, and appoint an MoF staff to coordinate and oversee the CFU, as detailed in the POM;
 - (c) a Working Group, which includes experts from the MoESTD and focal points for each of the Project Parts, to be responsible for providing technical expertise and support to the PMU on day-to-day Project implementation activities;
 - (d) a Consultative Group, comprising representatives from other relevant Borrower ministries, institutions and partners to advise on ECEC policy issues, programs and related grants and other actions at the local, regional, and national levels, and to contribute to events and information dissemination;
 - (e) a Grant Approval Committee (GAC), consisting of representatives from MoESTD, other relevant Borrower ministries and stakeholders at the national level (including country-wide Roma non-governmental organizations), to be responsible for evaluating and selecting grant proposals under Part 3.B of the Project, in accordance with the criteria set forth in the GOM; and

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- (f) inter-sectoral teams, consisting of representatives of Local Self-governments of municipalities, preschool institutions, primary schools, centers for social work, health centers, local branches of the Red Cross, local Roma nongovernmental organizations, representatives of local Roma structures (teaching assistants, Roma health mediators, Roma coordinators, where applicable) and local parents associations, to be responsible for the development of grant proposals and the supervision of grant funded activities under Part 3.B of the Project, and as detailed in the GOM.
- 2. In furtherance of Part 1 of the Project, prior to carrying out the works selected within an individual municipality, the Borrower, through the MoESTD, shall enter into an agreement with the respective Local Self-government, with all terms and conditions required under the GOM, including specifically, in return for Preschool Spaces, the obligation of the Local Self-government to maintain the new, renovated, repurposed and/or upgraded preschools, and to provide the staffing and public utilities connections necessary for the functioning and maintenance of the said preschools.
- 3. In furtherance of Part 3.B of the Project, the Borrower, through the MoESTD, shall provide grants to grant recipients in accordance with eligibility criteria and procedures acceptable to the Bank, as set forth in the GOM, and shall extend each grant to the respective grant recipient under a grant agreement on terms and conditions approved by the Bank. Such terms and conditions shall:
 - (a) include rights that adequately protect the interests of the Borrower and the Bank, including the right to suspend or terminate the grant recipient's right to use the grant proceeds, and the right to obtain a refund from the grant recipient of all or any part of the amount of the grant then withdrawn, upon the grant recipient's failure to perform any of its obligations under the grant agreement; and
 - (b) require each grant recipient to:
 - (1) carry out its sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Bank, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Borrower;
 - (2) provide, as promptly as needed, the resources required for the purposes of the sub-project, including the respective grant recipient's provision of adequate co-financing or in-kind

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contribution, as relevant, in accordance with the requirements set forth in the GOM;

- (3) procure the goods, works and services to be financed out of the grant in accordance with the provisions of this Agreement;
 - (4) maintain policies and procedures adequate to enable the grant recipient to monitor and evaluate, in accordance with indicators acceptable to the Bank, the progress of the grant and the achievement of its objectives;
 - (5) (A) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Bank, both in a manner adequate to reflect the operations, resources and expenditures related to the sub-project; and (B) at the Bank's or the Borrower's request, have such financial statements audited by independent auditors acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank, and promptly furnish the statements as so audited to the Borrower and the Bank;
 - (6) enable the Borrower and the Bank to inspect the sub-project, its operation and any relevant records and documents; and
 - (7) prepare and furnish to the Borrower and the Bank all such information as the Borrower or the Bank shall reasonably request relating to the foregoing.
4. The Borrower shall exercise its rights under each grant agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan. Except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive any grant agreement or any of its provisions.

B. Project Operations Manual

1. The Borrower shall carry out the Project in accordance with the POM, satisfactory in form and substance to the Bank, which consists of different schedules setting forth rules, methods, guidelines, specific development plans, standard documents and procedures for the carrying out of the Project, including the following:
- (a) the detailed description of all Project activities supported under this Agreement, their sequencing and the prospective timetable and benchmarks in relation thereto; and

- (b) the Project administrative, financial, accounting, auditing, procurement and disbursement procedures, including all relevant standard documents.
- 2. The POM may not be assigned, amended, abrogated or waived, or permitted to be assigned, amended, abrogated or waived, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project; the POM may only be amended in consultation with, and after approval of, the Bank. In case of any conflict between the terms of the POM and those of this Agreement, the terms of this Agreement shall prevail.

C. Grant Operations Manual

- 1. The Borrower shall carry out Part 3.B of the Project in accordance with the GOM, satisfactory in form and substance to the Bank, setting forth the procedures for selecting, appraising, and approving grant proposals, and for supervising implementation of subprojects financed under the grants program. The GOM shall include, *inter alia*:
 - (a) the eligibility criteria for the grants;
 - (b) the application, evaluation, selection, award and grant management procedures;
 - (c) the criteria for grant disbursements, monitoring, evaluation and reporting; and
 - (d) mandatory provisions that provide the following: (i) no major civil works shall be financed by the grants, (ii) no land acquisition or Involuntary Resettlement shall occur in connection with the provision of grants, (iii) beneficiaries of the grants shall not award contracts to their subsidiary or affiliated companies unless there is an established arms-length arrangement, and (iv) grants will be provided and implemented in accordance with the Environmental and Social Management Framework and any applicable Environmental Management Plan thereunder.
- 2. The GOM may not be assigned, amended, abrogated or waived, or permitted to be assigned, amended, abrogated or waived, or any provision thereof, in a manner which, in the opinion of the Bank, may materially and adversely affect the implementation of the Project; the GOM may only be amended in consultation with, and after approval of, the Bank. In case of any conflict between the terms of the GOM and those of this Agreement, the terms of this Agreement shall prevail.

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D. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

E. Safeguards

1. The Borrower shall ensure that:
 - (a) the Project is carried out in accordance with the respective terms of the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF), and the policies, procedures and arrangements therein set forth are applied and implemented; and
 - (b) the ESMF and the RPF, or any provision thereof, shall not be amended, suspended, abrogated, terminated or waived or permitted to be amended, suspended, abrogated, terminated or waived, except with the prior written approval of the Bank.
2. Prior to the commencement of civil works, the Borrower shall:
 - (a) submit to the Bank for its approval, as relevant (i) any required Resettlement Action Plan (RAP), including the relevant social assessment, in form and substance satisfactory to the Bank, and (ii) any required Environmental Management Plan (EMP), in form and substance satisfactory to the Bank;
 - (b) ensure that the provisions of the said RAP(s) and EMP(s) are adequately included in the proposed contract(s) for the said works; and
 - (c) ensure that the said RAP(s) is/are disclosed and, unless the Bank shall otherwise agree, all related, adequate compensation amounts are paid in full, all in accordance with the related RAP(s) and EMP(s), the RPF and the ESMF.

Section II. Project Monitoring Reporting and Evaluation

A. Project Reports

1. The Borrower, through the MoESTD, shall monitor and evaluate 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 quarter, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. No later than ninety (90) days from the date of effectiveness, the Borrower, through the CFU, shall have, under terms of reference and in a manner acceptable to the Bank, installed and adapted appropriate accounting software for Project accounting, budgeting and reporting.
2. The Borrower, through the CFU, shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
3. The Borrower, through the CFU, shall prepare and furnish to the Bank, 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 Bank.
4. The Borrower, through the CFU, shall have the Financial Statements audited in accordance with the provisions of Section 5.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Borrower. The audited Financial Statements for each such period shall be furnished to the Bank not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Goods, Works and Non-consulting Services.** All goods, works and non-consulting services required for the Project and to be financed out of the proceeds of the Loan 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 Loan 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 Bank of particular contracts refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

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B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods, Works and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding, subject to the additional provisions in the Attachment to this Schedule; (b) Shopping; and (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 methods, other than Quality and Cost-based Selection, may be used for procurement of consultants' services for those contracts which are specified in the Procurement Plan: (a) Selection based on Consultants' Qualifications; and (b) Single-source Selection of consulting firms.

D. Review by the Bank of Procurement Decisions

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

Section IV. 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.

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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.

Category	Amount of the Loan Allocated (expressed in EUR)	Percentage of Expenditures to be financed (exclusive of Taxes)	Percentage of Expenditures to be financed (inclusive of Taxes)
(1) (a) Goods, works, non-consulting services for the Project, except for Parts 3.B and 3.C (€36,000,000) (b) Consultants' services for the Project, except for Parts 3.B and 3.C (€5,382,500)	41,382,500	(a) 100%	(b) 100%
(2) Grants under Part 3.B of the Project	1,500,000	100%	
(3) Subsidies under Part 3.C of the Project	4,000,000	100%	
(4) Front-end Fee	117,500	Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions	
TOTAL AMOUNT	<u>47,000,000</u>		

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section,
- (a) no withdrawal shall be made from the Loan Account for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed one hundred thousand Euros (EUR

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100,000) may be made for payments made prior to this date but on or after December 1, 2016, for Eligible Expenditures under Category (1);

(b) under Category 2 above:

- (i) the Borrower may withdraw an amount not to exceed one million Euros (EUR 1,000,000) as an advance, provided that the Borrower, through the MoESTD, has adopted, to the satisfaction of the Bank, the GOM as set forth in Section I.C of this Schedule;
- (ii) the Borrower may withdraw an amount not to exceed five hundred thousand Euros (EUR 500,000), provided that the Borrower has furnished evidence satisfactory to the Bank that the grant recipients have used the advanced grant proceeds disbursed pursuant to Section IV.B(b)(i) above for eligible expenditures pursuant to the grants' intended purposes, and in accordance with the respective grant agreements, which are satisfactory to the Bank; and
- (iii) notwithstanding Section IV.B.1(b)(ii) above, if, in the opinion of the Bank, the amounts advanced pursuant to Section IV.B(b)(i) were not used for the grants' intended purposes, the Borrower shall refund such advance (or portion of such advance as determined by the Bank) to the Bank promptly upon notice thereof by the Bank. Except as otherwise agreed with the Borrower, the Bank may cancel the amount so refunded; and

(c) under Category 3 above, the Borrower may, on an annual basis, withdraw an amount equal to the Borrower's reimbursement of the relevant Local Self-governments' financing of their respective social assistance funds (as evidenced in the Borrower's national budget for the relevant fiscal year), but not in excess of one million Euros (EUR 1,000,000), for each annual period of Project implementation; however for the fourth year of Project implementation, should the unwithdrawn balance of Category 3 be in excess of one million Euros (EUR 1,000,000), the Borrower may withdraw an amount equal to the Borrower's reimbursement of the relevant Local Self-governments' financing of their social assistance funds for that fiscal year, up to the full unwithdrawn balance of Category 3.

2. The Closing Date is December 30, 2022.

**Attachment
to
SCHEDULE 2**

The procedures to be followed for National Competitive Bidding shall be those set forth in this Attachment to Schedule 2 to this Agreement, provided, however that such procedure shall be subject to the provisions of Section I and Paragraphs 3.3 and 3.4 of the Procurement Guidelines, and the following additional provisions:

1. "Open Tendering" procedures as defined in Public Procurement Law of Serbia shall apply to all contracts;
2. Foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders in the bidding process. Government-owned enterprises in Serbia shall be permitted to bid only if they are legally and financially autonomous and operate under commercial law of the Borrower;
3. Procuring entities shall use sample bidding documents approved by the Bank;
4. Bids shall not be rejected without the prior concurrence of the Bank, in case of higher bid prices compared to the official estimate;
5. A single-envelope procedure shall be used for the submission of bids;
6. Post-qualification shall be conducted only on the lowest evaluated bidder; no bid shall be rejected at the time of bid opening on qualification grounds;
7. Bidders who contract as a joint venture shall be held jointly and severally liable;
8. Contracts shall be awarded to the lowest evaluated, substantially responsive bidder who is determined to be qualified to perform in accordance with pre-defined and pre-disclosed evaluation criteria;
9. Post-bidding negotiations shall not be allowed with the lowest evaluated or any other bidders;
10. Contracts of long duration (more than 18 months) shall contain appropriate price adjustment provisions acceptable to the Bank;
11. The bidding document and contract as deemed acceptable by the Bank shall include provisions stating the Bank's policy to sanction firms or individuals, found to have engaged in fraud and corruption as defined in the Procurement Guidelines; and

12. In accordance with the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Loan shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the Bank. Acts intended to materially impede the exercise of the Bank's inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines.

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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, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share (Expressed as a Percentage)
On each June 1 and December 1 Beginning June 1, 2022 through June 1, 2037	3.13%
On December 1, 2037	2.97%

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.

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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.

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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, and revised in January 2011 and as of July 1, 2016.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Central Fiduciary Unit” or “CFU” means the Borrower’s Central Fiduciary Unit referred to in Section I.A.1(b) of Schedule 2 to this Agreement, or any successor or successors thereto, acceptable to the Bank.
4. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
5. “Consultative Group” means the Borrower’s Consultative Group referred to in Section I.A.1(d) of Schedule 2 to this Agreement, or any successor or successors thereto, acceptable to the Bank.
6. “ECEC” means early childhood education and care.
7. “Environmental and Social Management Framework” or “ESMF” means the Borrower’s Environmental and Social Management Framework prepared by the Borrower, and satisfactory to the Bank, disclosed on November 15, 2016, and through the Bank’s external website on November 18, 2016, that identifies the Project’s likely environmental and social impacts, the potential mitigation measures of the identified risks, assessment of the institutional capacity of the implementing agency and measures for capacity-filling gaps, and an estimate of the budget needed for its implementation and related instruments, and guidance for the preparation of activities-specific environmental and social impact assessments and/or Environmental Management Plans.
8. “Environmental Management Plans” or “EMPs” means the site-specific documents, adopted by the Borrower, and satisfactory to the Bank, pursuant to the Project’s Environmental and Social Management Framework, and to be prepared and implemented in a manner fully consistent with the Environmental and Social Management Framework; and “EMP” refers to one such EMP.

9. "Financial Social Assistance" means the financial support given to beneficiaries as determined in the Borrower's *Law on Social Welfare*, published in Official Gazette of the Republic of Serbia No. 24/2011.
10. "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.
11. "Grant Approval Committee" or "GAC" means the Borrower's Grant Approval Committee referred to in Section I.A.1(e) of Schedule 2 to this Agreement, or any successor or successors thereto, acceptable to the Bank.
12. "Grant Operations Manual" or "GOM" means the grants operations manual referred to in Section I.C of Schedule 2 to this Agreement, as the said manual may be amended from time to time, with the prior written approval of the Bank, and such term includes any schedules to the said manual.
13. "Involuntary Resettlement" means: (a) the involuntary taking of land resulting in (i) relocation or loss of shelter, (ii) loss of assets or access to assets, and (iii) loss of income sources or means of livelihood, whether or not the affected persons must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas resulting in adverse impacts on the livelihoods of such person.
14. "Local Self-governments" means the Borrower's local self-governments as the term is defined in the Borrower's *Law on Local Self-governments*, published in Official Gazette of the Republic of Serbia No. 129/2007 and 83/2014.
15. "Ministry of Education, Science and Technological Development" or "MoESTD" means the Borrower's Ministry of Education, Science and Technological Development, or any successor or successors thereto.
16. "Ministry of Finance" or "MoF" means the Borrower's Ministry of Finance, or any successor or successors thereto.
17. "Ministry of Labor, Employment, Veteran and Social Affairs" means the Borrower's Ministry of Labor, Employment, Veteran and Social Affairs, or any successor or successors thereto.
18. "Operating Costs" means the operating costs directly incurred by the MoESTD in carrying out Project implementation, management and monitoring, including the following, all based on periodic budgets acceptable to the Bank: (a) PMU staffing costs; (b) training, conferences, study tours and seminars for PMU staff; (c) dissemination of Project related information; (d) office rent and utilities; (e) office equipment insurance, maintenance and repair; (f) vehicle maintenance and repair;

(g) travel; (h) security; (i) communication; (j) bank charges; and (k) other miscellaneous costs directly associated with the Project.

19. “Preschool Assistance Network” or “PAN” means the network of preschool practitioners created by MoESTD in cooperation with United Nations Children’s Fund (UNICEF) and partners.
20. “Preschool Space” means the physical space necessary to support a preschool child; “Preschool Spaces” means more than one such space.
21. “Procurement Guidelines” means the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
22. “Procurement Plan” means the Borrower’s procurement plan for the Project, dated December 14, 2016, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of the said paragraphs.
23. “Project Management Unit” or “PMU” means the Project management unit, referred to in Section I.A.1(a) of Schedule 2 to this Agreement, or any successor or successors thereto, acceptable to the Bank.
24. “Project Operations Manual” or “POM” means the project operations manual referred to in Section I.B of Schedule 2 to this Agreement, as the said manual may be amended from time to time, with the prior approval of the Bank, and such term includes any schedules to the POM.
25. “Red Cross” means the local nongovernmental organization of the same name that provides humanitarian aid, disaster relief and education in Serbia.
26. “Resettlement Action Plans” or “RAPs” means the site-specific documents, adopted by the Borrower, and satisfactory to the Bank, to be prepared and implemented in a manner fully consistent with the Resettlement Policy Framework; and “Resettlement Action Plan” or “RAP” means one such plan.
27. “Resettlement Policy Framework” or “RPF” means the document prepared and endorsed by the Borrower, and disclosed by the Borrower on November 15, 2016, and through the Bank’s external website on November 18, 2016, that sets forth resettlement procedures, institutional arrangements, eligibility criteria, entitlements and compensation, including valuation procedures, public consultation and participation, monitoring and evaluation and disclosure criteria to be applied in preparing and implementing Resettlement Action Plans.

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28. "Taxes" means the term as defined in the General Conditions to include "imposts, levies, fees and duties of any nature whether in effect at the date of the Legal Agreements or imposed after that date."
29. "Working Group" means the Working Group, referred to in Section I.A.1(c) of Schedule 2 to this Agreement, or any successor or successors thereto, acceptable to the Bank.

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. 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 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."
3. In the Appendix, **Definitions**, all relevant references to Section numbers and paragraphs are modified, as necessary, to reflect the modification set forth in paragraph 2 above.
4. The Appendix is modified by inserting a new paragraph 19 with the following definition of "Commitment Charge", and renumbering the subsequent paragraphs accordingly:

"19. "Commitment Charge" means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b)."
5. In the renumbered paragraph 49 (originally 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).

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6. In the renumbered paragraph 68 (originally paragraph 67) of the Appendix, the definition of the term “Loan Payment” is modified to read as follows:

“68. “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.”

7. In the renumbered paragraph 73 (originally 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”.

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