

LOAN NUMBER 8608-YF

Loan Agreement

(Modernization and Optimization of Public Administration Program)

between

REPUBLIC OF SERBIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated *MAY 16*, 2016

LOAN AGREEMENT

Agreement dated MAY 16, 2016, 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 sixty nine million Euro (EUR 69,000,000), 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 program described in Schedule 1 to this Agreement (“Program”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Loan Account shall be deposited by the Bank into an account specified by the Borrower and acceptable to the Bank.
- 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 Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty days, then the interest payable by the Borrower shall instead be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 April 15 and October 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 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 — PROGRAM

- 3.01. The Borrower declares its commitment to the objective of the Program. To this end, the Borrower shall carry out the Program through its Ministry of Public Administration and Local-Self Government (MPALSG), with the support of the Collegium of State Secretaries 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 Program is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV —TERMINATION

- 4.01. 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 modification 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 St.
11000 Belgrade
Republic of Serbia

Facsimile:
(381-11) 3618-961

- 5.03. The Bank's Address is:

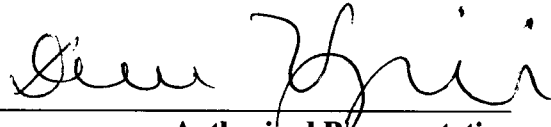
International Bank for Reconstruction and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
248423(MCI) or 64145(MCI)	1-202-477-6391

AGREED at BELGRADE, REPUBLIC OF SERBIA as of the day and year first above written.

REPUBLIC OF SERBIA

By



Authorized Representative

Name: DUŠAN VUČIĆ

Title: MINISTER OF FINANCE

**INTERNATIONAL BANK FOR
RECONSTRUCTION AND DEVELOPMENT**

By



Authorized Representative

Name: ANTONIUS VERHEIJEN

Title: COUNTRY MANAGER

SCHEDULE 1

Program Description

The objective of the Program is to improve efficiency in public sector employment and finances.

The Program consists of supporting Objective 2 (*Establishing a harmonized public service system on merits and improvement of human resource management*) and Objective 3 (*Improving public financial management and public procurement*) of the Action Plan for the Implementation of the Public Administration Reform Strategy, including the following activities:

1. Improving Human Resource Management.

Support the development of a system for managing the Borrower's government's staff and monitoring the Law on Public Sector Employees Salary System, through, *inter alia*, (a) the establishment of systems of wages in public administration; (b) creation of a training program for managers in State Administration; (c) creation of a training program for employees in human resources units in State Administration Bodies; (d) development and management of the Registry of Employees in the Public Sector; (e) implementation of ceilings on the maximum number of staff, selective downsizing and preparation; (f) monitoring of implementation of the new wages system and measurement of financial effects; (g) preparation and adoption of bylaws for enforcement of Law on Public Sector Employees Salary System (regulations on compensations of costs and other income); and (h) implementation of an affordable, market-based pay and grading system in the public administration.

2. Improving Financial Management.

Support the planning, management and supervision of the financial and fiscal system of the Borrower, through, *inter alia*: (a) the strengthening of budget execution and monitoring to ensure improved coverage of budget beneficiaries in the Financial Management Information System (FMIS); (b) the improvement of financial and budget information, commitment control and arrears; (c) monitoring and control of budget execution of Indirect Budget Beneficiaries; (d) supporting Treasury Administration operations; expansion and technological upgrading of capacity for more efficient business; and (e) improvements in business process automation.

3. Improving Public Procurement Management.

Support, *inter alia*: (a) the training of officers involved in public procurement within Contracting Authorities of the Borrower; (b) the development and implementation of Framework Agreements for Contracting Authorities; (c) the preparation by Public Procurement Office of procurement tools and manuals for Contracting Authorities and Economic Operators; (d) the development of a systematic approach to measure the performance of the public procurement system; (e) the preparation of a draft new law on public procurement; (f) introduction of the higher training level for certified public procurement officials; and (g) the enhanced use of information and communication technology (ICT) (e-Government) by Contracting Authorities and Economic Operators to enhance efficiency in procurement.

SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

1. Without limitation on the provisions of Article V of the General Conditions, the Borrower shall carry out the Program, or cause the Program to be carried out, in accordance with financial management, procurement and environmental and social management systems acceptable to the Bank (“Program Fiduciary, Environmental and Social Systems”) which are designed to ensure that:
 - (a) the Loan proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency and accountability; and
 - (b) the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.
2. The Borrower shall ensure that the Program is carried out in accordance with the ESSA, in a manner acceptable to the Bank. The Borrower shall not assign, amend, abrogate, or waive the ESSA, or any provisions thereof, without prior approval of the Bank.

B. Anti-Corruption

Without limitation on the provisions of Part A of this Section, the Borrower shall carry out the Program, or cause the Program to be carried out, in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Program Institutional and Implementation Arrangements

1. Program Institutions

Without limitation on the generality of Part A of this Section I, the Borrower shall:

- (a) carry out the Program through the MPALSG, which shall oversee the day to day management and execution of the Program;
- (b) maintain the Collegium of State Secretaries, comprised by State Secretary-level functionaries of individual ministries of the Borrower’s government, with resources, staffing and terms of reference satisfactory to the Bank,

for purposes of advising the MPALSG on matters relative to the carrying out of the Program;

- (c) carry out its DLR verification obligations through the Public Policy Secretariat, with the support of an independent auditor; and
- (d) cause the MPALSG to be supported in the carrying out of the Program by the Ministry of Finance, the Treasury Administration, the Public Procurement Office, the Public Policy Secretariat, the State Audit Institution, the National Employment Service, and the Human Resource Management Service, in form and substance satisfactory to the Bank.

2. Additional Program Implementation Arrangements

- (a) Without limitation on the generality of Part A of this Section I, the Borrower shall carry out the Action Plan for the Implementation of the Public Administration Reform Strategy in a manner satisfactory to the Bank.
- (b) The Borrower shall ensure to provide the necessary resources to the independent verification of the DLRs through the Public Policy Secretariat, with terms of reference satisfactory to the Bank.

Section II. Excluded Activities

The Borrower shall ensure that the Program excludes any activities which, in the opinion of the Bank, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people.

Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

The Borrower, through MPALSG, shall monitor and evaluate the progress of the Program and prepare Program Reports in accordance with the provisions of Section 5.08 of the General Conditions. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than sixty days after the end of the period covered by such report.

B. Program Financial Audits

Without limitation on the generality of Section I.A of this Schedule 2 and Section 5.09 of the General Conditions, the Borrower 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 one Fiscal Year after the end of such period.

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 may specify from time to time by notice to the Borrower to: (a) pay the Front-end Fee; and (b) finance the Program Expenditures, on the basis of the results (“Disbursement Linked Results” or “DLRs”) achieved by the Borrower, as measured against specific indicators (“Disbursement Linked Indicators” or “DLIs”); all as set forth in the table in paragraph 2 of this Part A.
2. The following table specifies each category of withdrawal of the proceeds of the Loan (including the Disbursement Linked Indicators as applicable) (“Category”), the Disbursement Linked Results for each Category (as applicable), and the allocation of the amounts of the Loan to each Category:

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
(1) DLI #1: Percentage of Public Administration Employee Positions assigned to pay grades as per the Law on Public Sector Employees Salary System.	DLR#1; from baseline 0 to at least 70% by 06/30/2017: EUR11,040,000	DLR#1: EUR11,040,000	Not scalable.
(2) DLI #2: Percentage of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System.	DLR#2: from baseline 0 to up to 90% by 12/31/2018: EUR11,040,000	DLR#2: EUR11,040,000	DLR#2: Scalable: EUR122,667 per each 1% of Public Administration Employees assigned to new pay grades as per the Law on Public Sector Employees Salary System

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
<p>(3) DLI#3: Total number of Public Administration Employees at or under annual ceiling prescribed by the Law on Ceilings on the Number of Employees</p>	<p>DLR#3.1: Total number of Public Administration Employees not to exceed the maximum prescribed by the Law on Ceilings on the Number of Employees for calendar year 2016: EUR1,840,000</p> <p>DLR#3.2: Total number of Public Administration Employees not to exceed the maximum prescribed by the Law on Ceilings on the Number of Employees for calendar year 2017: EUR1,840,000</p> <p>DLR#3.3: Total number of Public Administration Employees not to exceed the maximum prescribed by the Law on Ceilings on the Number of Employees for calendar year 2018: EUR1,840,000</p>	<p>DLR#3 EUR5,520,000</p>	<p>Not scalable.</p>

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
<p>(4) DLI#4: Percentage of Redundant Public Administration Employees receiving Redundancy Payments pursuant to provisions of Law on Ceilings on the Number of Employees, Civil Servants Law, and Labor Law.</p>	<p>DLR#4.1: 100% for calendar year 2017: EUR6,813,750</p> <p>DLR#4.2: 100% for calendar year 2018: EUR6,813,750</p>	<p>DLR#4 EUR13,627,500</p>	<p>Not scalable for the first 99% in each calendar year 2017 and 2018</p> <p>Scalable for the next 1% in each calendar year 2017 and 2018:</p> <p>Amount equal to EUR 136,275 / 1% of number of Redundant Public Administration Employees, on a per capita basis.</p>
<p>(5) DLI#5: Percentage of Public Procurement Contracts within the category of <i>public authorities</i> over 5,000,000 RSD in value, signed in a Fiscal Year of the Borrower, in 90 days or less between the date of Issuance of Bidding Documents and the date of signing of the Public Procurement Contracts.</p>	<p>DLR#5.1: from baseline 62% to 65% until 12/31/2016: EUR1,840,000</p> <p>DLR#5.2: from baseline of result as of 12/31/2016 to 68% until 12/31/2017: EUR1,840,000</p> <p>DLR#5.3: from baseline of result as of 12/31/2017 to 71% until 12/31/2018: EUR1,840,000</p>	<p>DLR#5: EUR5,520,000</p>	<p>DLR#5.1: Scalable: EUR613,333 per percentage point increase, up to and including 65%.</p> <p>DLR#5.2: Scalable: Amount per percentage point increase, up to and including 68%, equal to: (total percentage point increase) / (balance of EUR5,520,000 – amount paid under DLR# 5.1)</p> <p>DLR#5.3: Scalable: Amount</p>

Category (including Disbursement Linked Indicator as applicable)	Disbursement Linked Result (as applicable)	Amount of the Loan Allocated (expressed in EUR)	Disbursement Linked Result Scalability Formula (as applicable)
			per percentage point increase, up to and including 71%, equal to: (total percentage point increase) / (balance of EUR5,520,000) – (amount paid under DLR#5.1 + amount paid under DLR#5.2)
(6) DLI#6: Value of Public Procurement Contracts awarded through Framework Agreements (in RSD)	DLR#6: from baseline RSD 26.6 billion up to RSD 96.9 billion until 12/31/2018	DLR#6: EUR5,520,000	DLR#6: Scalable. EUR78,521 per each 1 billion RSD.
(7) DLI#7: Number of Indirect Budget Beneficiaries included in the FMIS.	DLR#7: from baseline 0 up to 526 until 12/31/2018	DLR#7: EUR5,520,000	DLR#7: Scalable. EUR10,494 per each Indirect Budget Beneficiary.
(8) DLI#8: Percentage of commitments in budget execution system entered within the required deadline per the Law on Deadlines for Payments in Commercial Transactions (%)	DLR#8: from baseline [60%] up to 90% by 12/31/2018	DLR#8: EUR11,040,000	DLR#8: Scalable EUR368,000 per percentage point increase.
(9) Front-end Fee to be paid pursuant to Section 2.03 of this Agreement in accordance with Section 2.07(b) of the General Conditions	Not applicable	EUR172,500	Not applicable
TOTAL AMOUNT		69,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for purposes of Section 2.05 of the General Conditions, for payments for Program Expenditures made prior to the date of this Agreement and
 - (b) for any DLR under Categories (1) through (8), until and unless the Borrower has furnished evidence satisfactory to the Bank that said DLR has been achieved.
2. Notwithstanding the provisions of Part B.1(b) of this Section, the Borrower may withdraw: an amount not to exceed seventeen million two hundred and fifty thousand Euro (EUR 17,250,000) as an advance under Categories (1) through (8), provided, however, in each case, that if the DLRs for said Categories, in the opinion of the Bank, are not achieved or only partially achieved by the date by which the said DLR is set to be achieved, the Borrower shall refund such advance (or portion of such advance as determined by the Bank in accordance with the provisions of paragraph (3) of this Part B) to the Bank promptly upon notice thereof by the Bank. Except as otherwise agreed with the Borrower, the Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the Bank shall specify by notice to the Borrower.
3. Notwithstanding the provisions of Part B.1 (b) of this Section, if the Bank is not satisfied that any of the DLRs under Categories (1) through (8) has been achieved by the date by which the said DLR is set to be achieved, the Bank may, at any time, by notice to the Borrower, decide, in its sole discretion, to: (a) in respect of Categories (2), (4) (in respect of the Scalable portion only), (5), (6), (7), and (8), authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Loan then allocated to said Category which, in the opinion of the Bank, corresponds to the extent of achievement of said DLR, said lesser amount to be calculated in accordance with the formula set out in the column "Disbursement Linked Result Scalability Formula" of the table under Section IV.A.2 of this Schedule 2; or (b) reallocate all or a portion of the proceeds of the Loan then allocated to said DLR to any other DLR ; or (c) cancel all or a portion of the proceeds of the Loan then allocated to said DLR.
4. The Closing Date is February 29, 2020.

5. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Borrower has failed to provide evidence satisfactory to the Bank that the Withdrawn Loan Balance does not exceed the total amount of Program Expenditures paid by the Borrower, exclusive of any such expenditures financed by any other financier or by the Bank or the Association under any other loan, credit or grant, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such excess amount of the Withdrawn Loan Balance. The Bank shall cancel the refunded amount of the Withdrawn Loan Balance.

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 April 15 and October 15 Beginning April 15, 2021 through April 15, 2032	4.17%
On October 15, 2032	4.09%

2. If the proceeds of the Loan have not been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:
 - (a) To the extent that any proceeds of the Loan have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
 - (b) Any amount withdrawn after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by the Bank by multiplying the amount of each such withdrawal by a fraction, the numerator of which is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. (a) Amounts of the Loan withdrawn within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.
 - (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.
4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the Withdrawn Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by the Bank by multiplying such amount in its currency of denomination immediately prior to the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.
5. If the Withdrawn Loan Balance is denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

APPENDIX

Section I. Definitions

1. "Action Plan for the Implementation of the Public Administration Reform Strategy" or "Action Plan" means the Borrower's action plan set forth in the Government Action Plan for the Implementation of the Public Administration Reform Strategy in the Republic of Serbia, 2015-2017, adopted on March 19, 2015 and published in the Borrower's Official Gazette No. 31/2015, as may be amended from time to time with the agreement of the Bank.
2. "Anti-Corruption Guidelines" means the Bank's "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing" dated February 1, 2012, and revised July 10, 2015.
3. "Bidding Documents" means those documents defined under Article 61 of the Public Procurement Law.
4. "Budget Law" means the Borrower's law pertaining to the annual budget of the Borrower.
5. "Category" means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.
6. "Civil Servants Law" means the Borrower's law published in the Borrower's Official Gazette No. 79/2005, 81/2005 - correction, 83/2005 -correction, 64/2007, 67/2007 - correction, 116/2008, 104/2009 and 99/2014.
7. "Collegium of State Secretaries" means the working group of the Public Administration Reform Council established to coordinate implementation of the Public Administration Reform Strategy and its Action Plan as well as the reporting on results from the implementation thereof, established by the Public Administration Reform Council Decision 23 No. 119-10554/2014, dated August 28, 2014.
8. "Consolidated Treasury Account of the Republic of Serbia" means a single account opened in the National Bank of Serbia and kept with the Treasury Administration, pursuant to the Law on Budget System.
9. "Contracting Authority" means an entity of the Borrower which meets the criteria set forth in Article 2 of the Public Procurement Law.
10. "Disbursement Linked Indicator" or "DLI" means in respect of a given Category, the indicator related to said Category as set forth in the tables in Section IV.A.2 of Schedule 2 to this Agreement.

11. “Disbursement Linked Result” or “DLR” means in respect of a given Category, the result under said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Loan allocated to said result may be withdrawn in accordance with the provisions of said Section IV.
12. “Economic Operators” means a bidder who meets the criteria set forth in Article 3, first paragraph, point (3) of the Public Procurement Law.
13. “ESSA” means the Environmental and Social Systems Assessment, dated February 5, 2015, and disclosed on the Bank’s Infoshop on March 9, 2016, which sets forth the criteria to monitor environmental and social systems performance during the Program implementation, and identifies actions to enhance the systems during the Program preparation and implementation, including an action plan associated to the retrenchment of Public Administration Employees.
14. “Financial Management Information System” or “FMIS” means a software platform utilized by the Borrower’s Ministry of Finance and Treasury Administration for budget planning and execution and better management of public finances.
15. “Fiscal Year” or “FY” means the twelve month period between and including January 1 and December 31 of a year.
16. “Framework Agreement” means an agreement which meets the criteria set forth in Article 3, first paragraph, point (20) of the Public Procurement Law.
17. “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.
18. “Human Resource Management Service” means the Borrower’s entity in charge of managing human resources in ministries, special organizations, services of the Government and support services of administrative districts, established and operating pursuant to the Borrower’s Regulation on establishment of Human Resources Management Service, published in the Borrower’s Official Gazette No106/2005, as amended through the Borrower’s Decision on Amending Regulation on establishment of Human Resources Management Service published in the Borrower’s Official Gazette No 109/2009, or any legal successor thereto.
19. “Indirect Budget Beneficiaries” has the meaning ascribed to the term under the Law on Budget System.
20. “Issuance of Bidding Documents” means the posting of tender documents on the Public Procurement Portal, pursuant to Article 62 of the Public Procurement Law.

21. "Labor Law" means the Borrower's law published in the Borrower's Official Gazette No. 24/2005, 61/2005, 54/2009, 32/2013 and 75/2014.
22. "Law on Budget System" means the Borrower's law published in the Borrower's Official Gazette No. 54/2009, 73/2010, 101/2010, 101/2011, 93/2012, 62/2013, 63/2013- correction, 108/2013, 142/2014, 68/2015 and 103/2015.
23. "Law on Ceilings on the Number of Employees" means the Borrower's law published in the Borrower's Official Gazette No. 68/2015.
24. "Law on Deadlines for Payments in Commercial Transactions" means the Borrower's law published in the Borrower's Official Gazette No. 119/2012 and 68/2015.
25. "Law on Public Sector Employees Salary System" means the Borrower's law adopted by the National Assembly on February 29th and published in the Borrower's Official Gazette No. 18/2016.
26. "Law on Registry of all Employees, Elected, Nominated and Appointed and Engaged Persons within Public Funds Beneficiaries" means the Borrower's law published in the Borrower's Official Gazette No. 68/2015 and 79/2015.
27. "Law on State Administration" means the Borrower's law published in the Borrower's Official Gazette No. 79/2005, 101/2007, 95/2010 and 99/2014.
28. "Ministry of Finance" means the Borrower's Ministry of Finance, or any legal successor thereto.
29. "MPALSG" means the Borrower's Ministry of Public Administration and Local-Self Government, or any legal successor thereto.
30. "National Employment Service" means the Borrower's entity in charge of providing services to unemployed persons and employers, established and operating pursuant to the Borrower's Statute of the National Employment Service published in the Borrower's Official Gazette No. 2/2010, as amended through the Borrower's Decisions on Amending the Statute of the National Employment Service published in the Borrower's Official Gazette No. 43/2011, 16/2012 and 90/2015, or any legal successor thereto.
31. "Program Expenditures" includes (a) capital, operational, and salary costs under the Borrower's budget programs for MPALSG, Treasury Administration, Public Procurement Office, National Employment Service, State Audit Institution, Public Policy Secretariat, and Human Resource Management Service, as monitored for the Borrower's budget codes set out in the Budget Law numbers 411 through 416, 421, through 426, 451, 462, 463, 482, 483, 485, 511, 512, and 515, and (b)

severance costs related to the layoff of Redundant Public Administration Employees.

32. "Program Fiduciary, Environmental and Social Systems" means the Borrower's systems for the Program referred to in Section I.A.1. of Schedule 2 to this Agreement.
33. "Public Administration Employee Positions" means positions in all ministries, public services, public agencies and local self-government of the Borrower (pursuant to Article 1, Paragraph 3 of the Law on Public Sector Employees Salary System), excluding police officers, the military and state-owned enterprises.
34. "Public Administration Employees" means personnel on open-ended contracts in ministries, public services, public agencies and local self-government of the Borrower (pursuant to Article 1, Paragraph 3 of the Law on Public Sector Employees Salary System), excluding police officers, the military and state-owned enterprises.
35. "Public Administration Reform Council" means Borrower's central strategic body for the reform of public administration, tasked to define strategic directions of the reform of public administration, to initiate and recommend to the Borrower's government, measures and activities to be taken in regard to the reform of the public administration, to review and adopt reports on the achieved results, established by the Decision on Establishing a Public Administration Reform Council on 15 August, 2014 (Borrower's Official Gazette No. 79/2014, 86/2014, 120/2014 and 22/2015).
36. "Public Policy Secretariat" means the Borrower's Public Policy Secretariat reporting to the office of the Borrower's Prime Minister, or any legal successor thereto.
37. "Public Procurement Contract" means an agreement which meets the criteria set forth in Article 3, first paragraph, point (2) of the Public Procurement Law.
38. "Public Procurement Law" means the Borrower's law published in the Borrower's Official Gazette No. 124/2012, 14/2015 and 68/2015.
39. "Public Procurement Office" means the Borrower's organization which meets the criteria set forth in Article 135 of the Public Procurement Law, or any legal successor thereto.
40. "Public Procurement Portal" means a web service managed by the Public Procurement Office which contains data on all public procurement procedures, decisions of the Borrower's Republic Commission for Protection of Rights in Public Procurement Procedures, opinions of justification to apply negotiation

procedures, public procurement plans, reports on concluded public procurement contracts, contracts of public private partnership and concessions.

41. "Public Administration Reform Strategy" means Government Strategy for Reform of the Public Sector adopted on January 24th 2014 (Borrower's Official Gazette No. 9/2014 and 42/2014– correction).
42. "Redundant Public Administration Employee" means an employee above the maximum number of employees in a given year designated for separation to achieve the required maximum number of employees for that year per the Law on Ceilings on the Number of Employees, and entitled to receive a Redundancy Payment.
43. "Redundancy Payments" means sum of money payable by an employer to the employee designated for separation in line with the Law on Ceilings on the Number of Employees, Civil Servants Law and Labor Law.
44. "Registry of Employees in the Public Sector" means the registry of public sector employees of the Borrower, established in the Law on Registry of all Employees, Elected, Nominated and Appointed and Engaged Persons within Public Funds Beneficiaries.
45. "RSD" means Serbian Dinar, the lawful currency of the Borrower.
46. "State Administration" means the part of the executive power of the Borrower, in charge of carrying out administrative tasks, in line with and pursuant to, the Law on State Administration.
47. "State Administration Bodies" means ministries, administrative authorities within the ministries and special organizations in line with the provisions of the Law on State Administration.
48. "State Audit Institution" means the Borrower's independent authority for auditing public funds, established and operating pursuant to the Borrower's law published in the Borrower's Official Gazette No. 101/2005, 54/2007 and 36/2010, or any legal successor thereto.
49. "Treasury Administration" means the entity within the Borrower's Ministry of Finance responsible for cash management, approval and execution of payments of the budget funds in line with the Borrower's Budget Laws, monitoring of expenditures, budget accounting and financial reporting and managing the Consolidated Treasury Account of the Republic of Serbia, or any legal successor thereto.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. Wherever used throughout the General Conditions, the term “the Project” is modified to read “the Program”, the term “the Project Agreement” is modified to read “the Program Agreement”, the term “Project Implementing Entity” is modified to read “the Program Implementing Entity”, the term “Project Report” is modified to read “Program Report”; and the term “Eligible Expenditures” is modified to read “Program Expenditures”.
2. In the **Table of Contents**, the references to Sections, Section names and Section numbers are modified to reflect the amendments set forth below.
3. Section 2.02, *Special Commitment by the Bank*, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
4. In Section 2.02 (originally numbered as Section 2.03), the heading “*Applications for Withdrawal or for Special Commitment*” is replaced with “*Applications for Withdrawal*”, and the phrase “or to request the Bank to enter into a Special Commitment” is deleted.
5. The section originally numbered as Section 2.04, *Designated Accounts* is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
6. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), *Eligible Expenditures* (renamed “Program Expenditures” in accordance with paragraph 1 of this Section II), is modified to read: “(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Loan in accordance with the provisions of the Legal Agreements;”.
7. The last sentence of Section 2.04 (originally numbered as Section 2.06), *Financing Taxes*, is modified to read: “To that end, if the Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Bank may, by notice to the Borrower, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Loan, as required to ensure consistency with such policy of the Bank.”

8. Section 2.06 (originally numbered as Section 2.08), *Reallocation*, is modified to read:

“Notwithstanding any allocation of an amount of the Loan to a withdrawal category under the Loan Agreement, the Bank may, by notice to the Borrower, reallocate any other amount of the Loan to such category if the Bank reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.

9. 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.”

10. Section 7.01, *Cancellation by the Borrower*, is modified to read: “The Borrower may, by notice to the Bank, cancel any amount of the Unwithdrawn Loan Balance.”

11. Paragraph (d) of Section 7.03, *Cancellation by the Bank*, entitled “*Misprocurement*”, is deleted, and subsequent paragraphs are relettered accordingly.

12. Section 7.04, *Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Bank*, is deleted in its entirety, and subsequent Sections in Article VII and references to such Sections are renumbered accordingly.

13. In the Appendix, **Definitions**, all references to Section numbers and paragraphs are modified, as necessary, to reflect the modifications set forth above.

14. A new paragraph 19 is inserted with the following definition of “Commitment Charge”, and the remaining paragraphs are renumbered accordingly:

“19. “Commitment Charge” means the commitment charge specified in the Loan Agreement for the purpose of Section 3.01(b).”

15. 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).
16. 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.”
17. 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”.
18. Renumbered paragraph 88 (originally paragraph 87) of the Appendix, setting forth the definition of “Special Commitment” is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.