**LOAN NUMBER 8936-YF**

**Loan Agreement**

**(Tax Administration Modernization Project)**

**between**

**REPUBLIC OF SERBIA**

**and**

**INTERNATIONAL BANK FOR RECONSTRUCTION**

**AND DEVELOPMENT**

LOAN AGREEMENT

AGREEMENT dated as of the Signature Date 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. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
  2. 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 the amount of forty-five million three hundred thousand Euros (€45,300,000), as such amount may be converted from time to time through a Currency Conversion (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).

* 1. The Borrower may withdraw the proceeds of the Loan in accordance with Section III of Schedule 2 to this Agreement.
  2. The Front-end Fee is one quarter of one percent (0.25%) of the Loan amount.
  3. The Commitment Charge is one quarter of one percent (0.25%) per annum on the Unwithdrawn Loan Balance.

2.05. The interest rate is the Reference Rate plus the Fixed Spread or such rate as may apply following a Conversion; subject to Section 3.02(e) of the General Conditions.

2.06. The Payment Dates are May 15 and November 15 in each year.

2.07. The principal amount of the Loan shall be repaid in accordance with Schedule 3 to this Agreement.

**ARTICLE III — PROJECT**

* 1. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower, through STA, shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

# ARTICLE IV — REMEDIES OF THE BANK

4.01. The Additional Event of Suspension consists of the following, namely that the Project Implementing Entity’s Legislation has been amended, suspended, abrogated, repealed, or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project.

4.02. The Additional Event of Acceleration consists of the following, that the event specified in Section 4.01 of this Agreement occurs and is continuing for a period of sixty (60) days after notice of the event has been given by the Bank to the Borrower.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Effectiveness Deadline is the date one hundred and eighty (180) days after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. 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.

6.02. For purposes of Section 10.01 of the General Conditions: (a) the Borrower’s address is:

Ministry of Finance

20 Kneza Milosa St.

11000 Belgrade

Republic of Serbia; and

(b) the Borrower’s Electronic Address is:

Facsimile: E-mail:

(381-11) 3618-961 [kabinet@mfin.gov.rs](mailto:kabinet@mfin.gov.rs)

6.03. For purposes of Section 10.01 of the General Conditions: (a) the Bank’s address is:

International Bank for Reconstruction and Development

1818 H Street, N.W.

Washington, D.C. 20433

United States of America; and

(b) the Bank’s Electronic Address is:

Telex: Facsimile: E-mail:

248423(MCI) or 1-202-477-6391 sndegwa@worldbank.org

64145(MCI)

AGREED as of the Signature Date.

**REPUBLIC OF SERBIA**

**By**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/s1/

**Authorized Representative**

|  |  |
| --- | --- |
| **Name:** | **SINIŠA MALI** |

|  |  |
| --- | --- |
| **Title:** | **MINISTER OF FINANCE** |

|  |  |
| --- | --- |
| **Date:** | **07/05/2019** |

**INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT**

**By**

**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_**/s2/

**Authorized Representative**

|  |  |
| --- | --- |
| **Name:** | **STEPHEN NDEGWA** |

|  |  |
| --- | --- |
| **Title:** | **COUNTRY MANAGER** |

|  |  |
| --- | --- |
| **Date:** | **07/05/2019** |

**SCHEDULE 1**

**Project Description**

The objective of the project is to improve effectiveness of tax collection and lower the compliance burden for taxpayers.

The Project consists of the following parts:

**Component 1: Legal Environment**

Provision of support to remove impediments in the Borrower’s legal framework to ensure effective functioning of STA, focusing on tax laws and regulations and information governance and exchange, including, *inter alia*:

(a) the carrying out of an analysis of the Borrower’s national legal framework on: (i) recognition of digital documents for judicial purposes; (ii) document retention and records management; and (iii) information exchange between STA, other government agencies and third parties;

(b) the development of a procedural framework for automatic exchange of information with EU member states; and

(c) the review of the Borrower’s legal framework to: (i) align the existing Borrower’s laws with European Union standards; (ii) develop options to strengthen legislation and administrative practice to counter risks of profit shifting and base erosion for the Borrower’s tax base; and (iii) provide recommendations for closing loopholes in tax laws and bylaws and improving implementing regulations.

**Component 2: STA Organization and Operations**

(a) Provision of support for: (i) the reform of STA’s human resource function to streamline its inefficient human resource support system; and (ii) the development and implementation of specifications for the enhancement of STA’s existing human resources management information system to make it fully functioning, in line with international standards.

(b) Provision of support for: (i) the carrying out of business process reengineering to enable institutional, legal and procedural improvements in the Borrower’s tax administration; and (ii) the implementation of an effective tax compliance management system, including the development of methodologies and strengthening of the Borrower’s tax administration capacity in functional areas, including, *inter alia*, tax return and payment processing, enforcement and compliance, tax audit, risk analysis, appeals process, internal control and audit, tax gap, and revenue estimation.

(c) Provision of support for the modernization of taxpayer services with a view to increase the taxpayers’ understanding of revenue laws and procedures, taxpayers’ rights and obligations, including the provision of comprehensive e-services for taxpayers.

**Component 3: ICT System and Records Management Modernization**

(a) (i) provision of support for the modernization of the STA’s tax administration ICT system; (ii) implementation of an e-fiscalization system, including the acquisition of an e-cash register software product and carrying out of Training to address the recording gap for cash transactions; (iii) upgrade of the STA’s ICT infrastructure and provision of other software; and (iv) the carrying out of third-party data security audit.

(b) (i) provision of support for the development of STA’s data warehouse, including the establishment of protocols for data exchange between the STA, other government bodies and third parties; (ii) the strengthening of the capacity of STA staff to mine data effectively from the data warehouse for risk assessment and other needs; and (iii) the development of a taxpayer register enabling interface with other systems.

(c) Developing solutions to build records management capacity, clear paper records backlogs and provide systematic solutions for future records management through an information governance model.

**Component 4: Project Management and Change Management**

Provision of cross-cutting support to activities in Components 1 to 3 of the Project, including: (a) the establishment of the PIU and strengthening of the CFU’s capacity; (b) the carrying out of internal and external stakeholder communication; and (c) the provision of change management support to implementation teams within STA.

**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 maintain throughout Project implementation, with composition, resources, terms of reference, and functions acceptable to the Bank:
2. a Project implementation unit within STA (PIU), to be responsible for: (i) the overall coordination of all Project implementation activities; (ii) ensuring that the requirements, criteria, policies, procedures, and organizational arrangements set forth in the Project Operations Manual 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; and
3. a Central Fiduciary Unit (CFU), within MoF, to be responsible for the procurement and financial management of the Project, as detailed in the Project Operations Manual.
4. Unless otherwise agreed with the Bank, not later than one (1) month after the Effective Date, the Borrower shall establish and thereafter maintain throughout Project implementation: (a) a Project Steering Committee; and (b) an Advisory Committee; all with responsibilities, composition and functions as set forth in the Project Operations Manual.
5. Unless otherwise agreed with the Bank, not later than October 31, 2019, the Borrower, through STA, shall inform the Bank which technical modality has been selected for the carrying out of the modernization of the STA’s tax administration ICT system, under Component 3(a)(i) of the Project.
6. Unless otherwise agreed with the Bank, not later than November 30, 2019, the Borrower shall hire the following additional staff for the CFU: (a) a procurement specialist; and (b) a financial management specialist, all with terms of reference and qualifications acceptable to the Bank.

**B. Project Operations Manual**

1. The Borrower, through the PIU and CFU, shall carry out the Project in accordance with the provisions of a manual (the Project Operations Manual), in a manner and with contents acceptable to the Bank, including *inter alia*: (a) the indicators to be used in the monitoring and evaluation of the Project; (b) the procedures for Project monitoring, supervision and evaluation, including the format and content of the Project Reports; (c) the composition, rules of operation, and responsibilities of the Steering Committee and the Advisory Committee; and (d) the procurement and financial management procedures.

2. Except as the Bank may otherwise agree in writing, the Borrower shall not abrogate, amend, suspend, waive, or otherwise fail to enforce the Project Operations Manual or any provision thereof.

3. In case of any conflict between the terms of the Project Operations Manual and those of this Agreement, the terms of this Agreement shall prevail.

**C. Safeguards**

1. The Borrower, through STA, shall ensure that:
2. the Project is carried out with due regard to appropriate health, safety, social, and environmental practices and standards, and in accordance with the Safeguards Instruments;
3. for each activity under the Project for which the ESMF and the RPF provide for the preparation of an ESMP and/or a RAP:
4. proceed to have such ESMP and RAP as appropriate: (A) prepared and disclosed in accordance with the ESMF and the RPF, respectively; (B) consulted upon adequately with people affected by the Project as per the ESMF and the RPF, respectively, and submitted to the Bank for review and approval; and (C) thereafter adopted, prior to implementation of the activity; and
5. take such measures as shall be necessary or appropriate to ensure compliance with the requirements of such ESMP and RAP in a manner satisfactory to the Bank;
6. all measures are taken to implement the RAPs in a manner and timeframe satisfactory to the Bank. To this end, the Borrower shall ensure that:

1. Funds are made available to cover all the costs of implementing the RAPs.
2. Prior to carrying out activities which involve displacement, Affected Persons shall be compensated at full replacement cost, resettled and provided with resettlement assistant in accordance with the Subproject RAPs, as applicable; and
3. the implementation, monitoring and evaluation of such RAPs is completed and reported in a manner satisfactory to the Bank.
4. The Borrower, through STA, shall ensure that the obligation to comply with the relevant Safeguard Instruments is incorporated: (a) in the contracts between the Borrower and the relevant contractors and any entity (including any engineer) supervising the Project’s civil works; and (b) in the contracts between the relevant contractors and the contractors’ subcontractors.
5. Except as the Bank shall otherwise agree, the Borrower, through STA, shall ensure, and cause to ensure, that none of the provisions of the Safeguard Instruments is abrogated, amended, repealed, suspended, or waived. In case of any inconsistencies between the provisions of any of the Safeguard Instruments and the provisions of this Agreement, the provisions of this Agreement shall prevail.
6. The Borrower, through STA, shall ensure that: (a) all consultancies related to technical assistance, design and capacity building under the Project, the application of whose results could have environmental, social and health and safety implications, shall only be undertaken pursuant to terms of reference reviewed and found satisfactory by the Bank; and (b) such terms of reference shall require the technical assistance, design and capacity building activities to take into account the requirements of the applicable Bank Safeguards Policies and EHS Guidelines.
7. The Borrower, through STA, shall maintain, throughout Project implementation, and publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Bank, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Bank.

**Section II. Project Monitoring, Reporting and Evaluation**

The Borrower shall furnish to the Bank each Project Report not later than one month after the end of each calendar semester, covering the calendar semester.

**Section III. Withdrawal of Loan Proceeds**

**A. General**

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Borrower may withdraw the proceeds of the Loan to: (a) finance Eligible Expenditures; and (b) pay the Front-end Fee; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

|  |  |  |
| --- | --- | --- |
| **Category** | **Amount of the Loan**  **Allocated**  **(expressed in EUR)** | **Percentage of Expenditures to be financed**  **(inclusive of Taxes other than Value Added Tax and Customs Duties)** |
| 1. Goods, works, non-consulting services, consulting services, Training and Operating Costs for the Project | 45,186,750 | 100% |
| 1. Front-end Fee | 113,250 | Amount payable pursuant to Section 2.03 of this Agreement in accordance with Section 2.07 (b) of the General Conditions |
| TOTAL AMOUNT | 45,300,000 |  |

For the purpose of this table, the custom duties and value added tax for the importation and supply of goods and services, within the Borrower’s territory and for the purpose of the implementation of the Project, shall not be financed out of Loan proceeds. The Borrower confirms that the importation and supply of goods and services, within the Borrower’s territory and for the purpose of the implementation of the Project, shall be exempted from customs duties and value added tax.

**B. Withdrawal Conditions; Withdrawal Period**

1.Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date, except that withdrawals up to an aggregate amount not to exceed Euro 500,000 may be made for payments made prior to this date but on or after February 7, 2019, for Eligible Expenditures. In accordance with Section 5.13 of the General Conditions, said Eligible Expenditures shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations and the provisions of the Procurement Plan.

2.The Closing Date is October 31, 2024.

**SCHEDULE 3**

**Commitment-Linked Amortization Repayment Schedule**

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”).

**Level Principal Repayments**

|  |  |
| --- | --- |
| **Principal Payment Date** | **Installment Share** |
| On each May 15 and November 15  Beginning May 15, 2024  through November 15, 2033 | 5.0% |

**APPENDIX**

**Section I. Definitions**

1. “Advisory Committee” means the committee referred to in section I.A.2 (ii) of Schedule 2 to this Agreement.
2. “Affected Person” means a person or entity who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person 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 livelihood of such person; and, “Affected Persons”, means more than one such Affected Person.
3. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, 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.
4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
5. “CFU” means the unit referred to in Section I.A.1(b) of Schedule 2 to this Agreement.
6. “EHS Guidelines” means the World Bank Group Environmental, Health and Safety Guidelines published on [www.ifc.org/ehsguidelines](http://www.ifc.org/ehsguidelines), as said guidelines are updated from time to time.
7. “Environmental and Social Management Framework” or “ESMF” means the environmental and social management framework, prepared by the STA, satisfactory to the Bank, and disclosed on the Bank’s website on January 22, 2019, setting out the principles, rules, guidelines, and procedures to screen and assess the environmental and social impacts (including health and safety issues) of the activities which will be identified and appraised during Project implementation, and containing measures and plans to avoid, minimize, mitigate, and/or offset adverse impacts and/or reduce said adverse impacts to acceptable levels, and enhance positive impacts, provisions for estimating and budgeting the costs of such measures, and information on the agency or agencies responsible for addressing project impacts, as said instrument may be amended from time to time with the Bank’s prior written agreement.
8. “Environmental and Social Management Plan” or “ESMP” means the plans to be prepared, as required, satisfactory to the Bank, and to be disclosed on the Borrower’s website during the implementation of the Project, which details (a) the measures to be taken during the implementation and operation of the Project to avoid, minimize, mitigate, or offset adverse environmental and social impacts (including health and safety issues), or to reduce them to acceptable levels; and (b) the actions needed to implement these measures, as said instrument may be amended from time to time with the Bank’s prior written agreement.
9. “EU” means the European Union.
10. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for IBRD Financing, Investment Project Financing”, dated December 14, 2018.
11. “ICT” means information and communications technology.
12. “Implementing Entity” means STA (as defined below).
13. “Implementing Entity’s Legislation” means the Borrower’s Law on Tax Procedure and Tax Administration, as amended, duly published in the RS Official Gazette No. 80/2002, 84/2002, 23/2003, 70/2003, 55/2004, 61/2005, 85/2005, 62/2006, 63/2006, 61/2007, 20/2009, 72/2009, 53/2010, 101/2011, 2/2012, 93/2012, 47/2013, 108/2013, 68/2014, 105/2014, 91/2015, 112/2015, 15/2016, 108/2016, 30/2018, and 95/2018.
14. “MoF” means the Borrower’s ministry of finance, or any successor thereto.
15. "Operating Costs" means expenditures incurred by the Borrower, through STA, on account of the Project implementation, including, *inter alia,* expenditures for office supplies, utilities, bank charges, communication tools, advertisement fees, translation and interpretation services, car rental and fuel costs, office rental and maintenance, moving expenses, equipment insurance, maintenance and repair, printing and publications, salaries, travel per diem allowances and accommodation costs for CFU staff, including taxes and social contributions but excluding salaries for the Borrower's civil servants.
16. “PIU” means the Project implementation unit referred to in Section I.A.1(a) of Schedule 2 to this Agreement.
17. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.
18. “Project Implementing Entity” means STA.
19. “Project Operations Manual” means the manual referred to in Section I.B of Schedule 2 to this Agreement.
20. “Resettlement Action Plan” or “RAP” means the instrument to be prepared in accordance with the procedures and requirements of the Resettlement Policy Framework, which includes the principles, procedures, organizational arrangements, and budget to implement the resettlement related activities under the Project, as said resettlement action plan may be revised from time to time with the prior written agreement of the Bank and “ RAPs” means, collectively, all such RAPs.
21. “Resettlement Policy Framework” or “RPF” means the resettlement policy framework prepared and adopted by the STA, satisfactory to the Bank, and disclosed on the Bank’s website on February 5, 2019, which sets out the resettlement principles, organizational arrangements (including consultation and budget), and design criteria to be applied to resettlement related Project activities to be prepared during Project implementation, as such framework may be amended from time to time with the prior written agreement of the Bank.
22. “Safeguard Instruments” means collectively, the ESMF, ESMP, RPF and RAP; “Safeguard Instrument” means any of such Safeguards Instruments.
23. “Safeguard Policies” means, the Operational Policies (Ops) and Bank Procedures (BPs) of the Bank, namely OP/BP 4.01 (Environmental Assessment), OP/BP 4.11 (Physical Cultural Resources) and OP/BP 4.12 (Involuntary Resettlement); they can be found at <https://policies.worldbank.org>.
24. “Signature Date” means the later of the two dates on which the Borrower and the Bank signed this Agreement and such definition applies to all references to “the date of the Loan Agreement” in the General Conditions.
25. “STA” means Serbian Tax Administration, a government body within the MoF, established pursuant to the Implementing Entity’s Legislation, or any successor thereto acceptable to the Bank.
26. “Steering Committee” means the committee referred to in Section I.A.2(a) of Schedule 2 to this Agreement.
27. "Training" means Project related study tours, training courses, seminars, workshops, and other training activities, including costs of training materials, space and equipment rental, travel, accommodation, and per diem costs of trainees and trainers, trainers' fees, and other training related miscellaneous costs.